DOCUMENT RESUME

ED 193 398 UD 020 937

AUTHOR Herbert, Leo
TITLE Performance Auditing. Material for Class Leader. Module Number Nine of Policy/Program Analysis and Evaluation Techniques, Package VI.
INSTITUTION Virginia Polytechnic Inst. and State Univ., Blacksburg. Div. of Environmental and Urban Systems.
SPONS AGENCY Department of Housing and Urban Development, Washington, D.C. Office of Policy Development and Research.; National Training and Development Service for State and Local Government, Washington, D.C.
PUB DATE [77]
NOTE 270p.; For related documents see UD 020 926-937. Prepared by the Center for Urban and Regional Studies.

EDRS PRICE MF01/PC11 Plus Postage.
DESCRIPTORS Case Studies; *Efficiency; Government (Administrative Body); Government Employees; Inservice Education; Instructional Materials; Learning Modules; *Management Development; Management Systems; *Operations Research; *Organizational Effectiveness; Postsecondary Education; Professional Continuing Education; *Public Administration; *Public Administration Education; Public Agencies; *Public Policy; Systems Approach

ABSTRACT

This packet contains the materials necessary for presentation of the ninth of ten modules which comprise a portion of the National Training and Development Service Urban Management Curriculum Development Project. This module focuses on performance auditing which evaluates activities and operational efficiency by reviewing finances, management policies, and administration. The packet includes materials for the instructor which overview the course methods, concepts, and procedures and a student/participant manual which presents case studies used as vehicles for teaching auditing concepts. (Author/MK)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED193396

AUG 1 3 1980

PERFORMANCE AUDITING
Material for Class Leader

Prepared by Dr. Leo Herbert, C.P.A.

Module Number Nine
of
POLICY/PROGRAM ANALYSIS AND
EVALUATION TECHNIQUES Package VI

Developed by

CENTER FOR URBAN AND REGIONAL STUDIES
DIVISION OF ENVIRONMENTAL AND URBAN SYSTEMS
COLLEGE OF ARCHITECTURE AND URBAN STUDIES
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Under Contract to

THE URBAN MANAGEMENT CURRICULUM DEVELOPMENT PROJECT

THE NATIONAL TRAINING AND DEVELOPMENT SERVICE

5028 Wisconsin Avenue, N.W.

Washington, D. C. 20016

Funded by

The Office of the Assistant Secretary for Policy Development
and Research, U.S. Department of Housing and Urban Development

UD020937

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
Alan Walter Steiss
Va. Polytechnic Inst. and State Univ.
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

Section I. Basic Assumptions and Introduction to Course

The instructional materials in this curriculum module are designed to be used in a gradual "unfolding" process of learning. As a consequence of the technical content of the subject and the anticipated diversity of the participants, no attempt is made to provide a "whole cloth" perspective at the outset. Rather, the intent is to develop this perspective incrementally as the patterns of the "warp and woof" of auditing practices are more fully understood by the participants.

Each case study and related scenarios in this module provides an additional component to the participants' overall familiarity with the principles and procedures of performance auditing as applied in the public sector. The materials are presented in a sequence that parallels the investigative approach used by many auditors in contemporary practice. The case studies and scenarios build upon one another, with several scenarios repeated at various stages of the process as the participants' knowledge of auditing practices increases. In this way, comprehension of the more subtle details of auditing procedures can be built on the foundation of familiar ground.

The materials provided in the accompanying participants manual should be distributed incrementally as each section is discussed. The class leader or instructor should review all of these materials in advance of the course, however, so that he or she is able to explain any questions that may arise in connection with the course outline. Several authoritative sources are cited at appropriate points in the manual; these sources should be consulted for further detail should the class leader or the participants find themselves in unfamiliar territory. While some knowledge of the principles of public accounting and auditing is assumed as an instructional prerequisite, it is not necessary for the class leader to have had experience in the field of performance auditing. In fact, in view of the currency of these developing techniques, it is doubtful that such expertise would be readily available.

The class leader should begin the workshop by distributing the course outline and statement of basic assumptions (Section I of the participants manual, pages VI.9.1 through VI.9.4). In discussing the basic assumptions, attention should be given to the particular areas of responsibility represented among the workshop participants. They should be encouraged to identify any problems within their areas of administrative responsibility that they might want to discuss during the sessions. These problems should be listed on a blackboard or flip-sheet so that they can be used as illustrations in future discussions.

As a general rule, in the initial exposure to a new knowledge/skill area it takes some time for the instructor to get acquainted with the students, to find out what their personal concerns are, and to settle

down the class sufficiently to initiate the actual learning process. This section on basic assumptions is designed to accomplish the above purposes, as well as to outline the general directions of the workshop. The class leader should explain that the workshop is built around a series of cases to illustrate various points relevant to the practices of auditing. For the development of their own understanding, however, it would be better to use situations taken from their own areas of responsibility to further illustrate specific points.

Care should be taken to develop a feeling within the participants that the workshop is for them and not for the class leader. This can be accomplished by emphasizing the case study approach and the need for their participation in the discussion of the scenario problems. A half hour has been allocated for this initial discussion. The curriculum materials are geared to a total of approximately 20 hours of instruction in either a formal course structure or interactive workshop setting (see "course outline," pages VI.9.2 - VI.9.4, for time assignments for each section). This should be ample time to complete the objectives of the course related to the basic assumptions.

Much of the material for the course, including many of the cases in the Material for Class Participants and the suggested solution to the cases in the Manual for the Class Leader has been taken from or adapted from:

Leo Herbert. Performance Auditing. Blacksburg, Virginia: 1977, 572pp.

and,

Leo Herbert, Instructor's Manual--Performance Auditing. Blacksburg, Virginia: 1977.

Permission has been granted to the National Training and Development Service by Leo Herbert to use this copyrighted material in this curriculum module and in subsequent presentations of this course on Performance Auditing. The class leader would benefit significantly from a review of the above text and instructor's manual before undertaking to lead this workshop.

The following guidelines relate (by title and page numbers) to the various sections in the Material for Class Participants which accompanies this Manual. Suggested solutions to the scenario problems and questions for discussion are provided, along with basic instructions to assist the class leader in the conduct of the workshop. There is no one right answer to the case or scenario; if different assumptions are made, the different participants may come up with different answers. One answer may be just as "right" as the other answer. Again it should be emphasized that the class leader should be completely familiar with these materials before embarking on this instructional assignment.

Section II. Introduction to Performance Auditing

As indicated in Section I, the curriculum materials are designed to help participants understand and apply performance auditing in their own assigned areas of responsibility and not to make auditors out of them. Since auditing is a new field to most participants, some time should be spent in helping them to come to an understanding of the purposes, definitions, and basic ideas of auditing.

Case II-1. Auditing Relationships (Pages VI.9.5 - VI.9.7) should be distributed at this point. This case is composed of a triangle concerning audit relationships and statements on auditing and accountability by the Comptroller General of the United States. The discussion in this section should take no more than one hour.

This case is designed to bring out many specific points, such as the following:

(1) Most auditors suggest that their purpose in making any audit is to help to improve the performance of those who have the responsibility for the organization, activity, function, or program being audited. However, there appears to be some disagreement on this point. Most managers often say that they hate to see auditors come in and they often consider the auditors to do more harm than they do good. Auditors often give the impression that they want to "clobber" those they audit rather than to help them to improve their performance.

(2) Considerable material has been written about the responsibilities of the auditors and about their independence. Little has been written about the responsibilities of the second and third parties. This case should bring out the responsibilities of the various levels of management, possible conflicts of interest between and among the various groups, the need for audit committees, and the responsibilities of the auditor. It should also bring out the need for the auditor to do a good job of auditing, including his need to obtain all pertinent information he must have to be objective and independent. It also should bring out the need for the auditor to obtain confidential information such as confidential memorandums, internal audit reports of state and local auditors, and other information which the manager sometimes believes should not be brought to the attention of the auditor.

The purpose of this section is for the participants to be able to get their own personal feelings concerning auditing out of their system, or if not out of their system, at least up on the table before they attempt to learn what auditing is all about. From the triangle, the Comptroller General's statements, and the discussion, the participants should be able to see their roles in the audit function. They should be able to see that they have responsibilities, as well as the auditor having responsibilities. The discussion in this section should lead directly to the next section on what is an audit, and more specifically, what is a performance audit.

Section III. What is Performance Auditing?

To gain an understanding of what performance auditing is all about, the participants will have to go far beyond the definitions of auditing. Definitions will, however, provide a starting point for them to seek a good understanding of this broad subject (Pass out Case III-1, pages VI.9.8 - VI.9.12).

Two definitions are given as cases. Taken by permission from the AIDE Project, the first definition brings out some distinctions between the objectives of auditing in terms of accountability or management control. Taken by permission from Leo Herbert's book on performance auditing, the second definition brings out the idea that auditing is evidence gathering on an audit objective in order to come to a conclusion on that objective and that every objective has three essential elements in it: a standard, some actions, and a result. Since an audit objective is the basis for all auditing, then all audits should have these three essential elements. In addition to these three elements being in the audit objective, the auditor also finds these same three elements at all stages of auditing, such as during the examination stage and the reporting stage.

If the participant understands: (1) the distinctions between auditing for accountability and for management control, and (2) the idea that all audit objectives have three essential elements, then he should be able to understand what auditing is all about. With these two basic ideas in his mind, he should also be able to understand the reasons for and the distinctions among all types of auditing, whether the audit is a financial statement audit, a management audit for efficiency or economy, a compliance audit, or a program audit to determine the effectiveness of the program.

This case should relate very well to the discussion in Section II on the three levels concerned with an audit and the problems the manager often has with the auditor. It also should bring out the meaning of accountability and management control. The information in the case only hints as to the elements of an audit. One such hint is: "the requirement that accountability must be measurable" implying that to be measurable there must be some standard of measurement.

The following are some possible answers to the questions raised at the end of this discussion (page VI.9.12):

1. Many administrators still feel that the best way to get the job done is through coercion rather than through cooperation. The answer to this question will depend upon the background and level of responsibility of the person discussing the question. If the person discussing the case is presently being audited, he undoubtedly feels that cooperation would be much better than coercion. Yet most managers feel that auditors use coercion rather than cooperation.

Some very interesting discussions should come from this question concerning the reason why one makes an audit. If increased productivity is desired, undoubtedly cooperation would be better. If the third party only wants to know whether the second party has carried out his orders, then only accountability is needed.

The instructor should read the entire Chapter III of the AIDE PROJECT book in order to have all of the results of the research on the subject.

2. and 3. Current management philosophy suggests that teamwork and cooperation will bring about greater productivity than coercion will. Authors such as Likert, McGregor, Herzberg, and others discuss this subject in detail.*

4. Seldom does one find an auditor who is interested in applying the principles of management control to an audit. Most of his psychological rewards, as well as financial rewards, comes from identifying what was done wrong instead of helping a manager to improve his performance. Most managers of audit organizations reward their auditors for the number of reports issued and deficiencies found than they do for improved performance of the manager of the agency. In addition, it is often very difficult to measure the improvement in management the auditor helps to make while it is very easy to measure the number of audit reports he completes and issues.

---

*Chris Argyris, Organization and Innovation (Homewood, Ill.) Richard D. Irwin, Inc., 1965.

Douglas McGregor, The Human Side of Interprise. McGraw-Hill Book Company, Inc., New York, 1960.

Rensis Likert, The Human Organization. McGraw-Hill Book Company, New York, 1967.

Rensis Likert. New Patterns of Management. McGraw-Hill Book Company, New York, 1961.

Peter Drucker. The Age of Discontinuity. Harper & Row, Publishers, New York, 1968.

Abraham H. Maslow. Motivation and Personality. Harper & Row, Publishers, 1954.

Robert R. Blake et al. "Managerial Grid" Advanced Management. September 1962.

Frederick Herzberg. Work and the Nature of Man. The World Publishing Company, Cleveland, 1966.

Case III-2. The Elements of an Audit

If performance auditing demands that "accountability must be measurable," then, performance auditing, likewise, demands that management control must be measurable. If so, then there must be some standard from which to measure. For no one can measure without an acceptable measuring standard. So, it will be necessary to go to another definition of auditing which includes the idea that there is a standard from which action, which brings about a result, can be measured.

Since auditing is so concerned with measurement and since the purpose of the course is to help the participants gain an understanding of auditing, then they must gain an understanding of the elements of an audit--the basis for the measurement. An understanding of the elements as a basis for understanding auditing will be developed in the second case. This case, with three individual audit scenarios, should show the participants that no matter what type of audit they encounter, the same three elements are present. And, these three elements will be identified: a standard used as a basis for the measurement, actions which either did or did not carry out the standard, and the measured results.

Case III-2. The Elements of an Audit (pages VI.9.13 - VI.9.18) should be distributed to participants. This case uses a definition of auditing, taken from Leo Herbert's book on auditing, along with three scenarios, adapted from GAO audits, to give the participants an understanding of what a performance audit is. The participants should be encouraged to "mark-up" the specific phrases or sentences directly on the scenarios which refer specifically to the standards, the actions, and the results. The "Suggested Solutions" on the following pages correspond to pages VI.9.14 - VI.9.18 in the Material for Class Participants, and have been marked up to illustrate these points.

SUGGESTED SOLUTIONS

Case III -- 2. The Elements of an Audit.

Audit Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles.

Our review of travel procedures at 14 major state agencies showed that the agencies had not been furnished management information on the cost of operating motor pool cars at various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers who drive their own cars on official business.

Standards

Our more detailed reviews at the offices of the Highway Department, the Department of Education, and the State Auditor's Office showed that the annual cost of reimbursing high-mileage drivers for official travel exceeded the cost of operating motor pool cars by about $20,000. If the mileage patterns observed were typical, the annual statewide costs of reimbursing high-mileage drivers for official travel would exceed the cost of operating interagency motor pool cars by about $100,000.

Actions

Result

Result

As a result of our proposals, the Division of Administration revised the state travel regulations to provide policy guidelines for management to determine (a) when it is beneficial to the State for employees to use their own cars for official business and (b) what reimbursement employees are entitled to if they are authorized to use their cars on official business when such use is for their own personal convenience.

1. a. Standard: The cost of operating motor pool cars.

   b. Actions: The Highway Department, the Department of Education, and the State Auditor's Office reimburing high-mileage drivers for using their own cars.

   c. Results: $20,000 for three agencies; $100,000 for the State.

2. Accountability

3. The Auditor

Case III - 2. The Elements of an Audit.

Audit Scenario 2 -- Grant Funds Used to Supplant State and Local Funds.

The Department of Health, Education, and Welfare auditors reported that a State education agency was not complying with the provisions of its Federal grant.

Law and regulation to be complied with

The Elementary and Secondary Education Act should not result in a decrease of State or local funds which would otherwise be available to a project area in the absence of title I funds. Office of Education guidelines state that title I funds:

"* * * are not to be used to supplant State and local funds which are already being expended in the project areas or which would be expended in those areas if the services in those areas were comparable to those for non-project areas * * *"

Standard

Condition found by auditor

The audit of the State Education Agency disclosed a decrease in State and local fiscal effort.

Effect of failure to comply

Result

Title I funds, estimated at $520,750, were used in supplanting State and local funds that were already being spent for services in project areas.

Cause of failure to comply

Actions

The State education agency officials advised the auditors that, with the exception of administrative reviews performed by program monitoring officials, no effective means existed to evaluate the comparability of services.

Auditors' recommendations

The State education agency should review other local education agencies in the State to determine whether similar deficiencies existed and, on the basis of its findings, develop and issue policies and procedures to all local education agencies participating in the title I program to insure that similar deficiencies do not recur. The auditors further recommended that the awarding agency determine the allowability of the title I funds ($520,750) used by the local education agency in lieu of State and local funds.

Case III - 2. The Elements of an Audit.

Audit Scenario 3 -- Benefits Could Be Realized by Revising Policies and Practices for Acquiring Existing Structures for Low-Rent Public Housing.

Standard #1

The low-rent housing program is designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. HUD provides financial and technical assistance to LHAs, which develop and/or acquire, own, and operate low-rent public housing projects to accomplish this aim.

Actions

To provide low-rent public housing, LHAs use several methods -- conventional construction, turnkey, direct acquisition of existing privately owned dwellings, and leasing.

Use of direct acquisition method does not increase housing supply

GAO reviewed HUD's and LHAs' practices and procedures relating to the direct acquisition method of obtaining existing, occupied standard structures and found that, although the method was expedient, it had certain disadvantages which tended to make it less desirable than other methods.

Actions

By using the direct acquisition method, the LHAs increased the supply of low-rent public housing but did not directly help to achieve the national housing goal of increasing the housing supply.

Result

Standard #2

GAO's review of 15 projects in 8 selected cities or metropolitan areas showed that LHAs had expended about $80 million to acquire the projects without increasing the supply of standard housing by a single unit. HUD's analyses of housing-market conditions showed that, in seven of the eight cities, a need for both subsidized and nonsubsidized standard housing existed when these projects were acquired.

Actions

The LHAs' action, therefore, did not improve the overall condition of the housing market. It appears that, in such cases, the construction of new housing and the rehabilitation of substandard housing would be the preferred method and would use Federal funds more effectively by adding to the supply of standard housing.

GAO proposed that HUD limit its financial assistance to LHAs to the acquisition of privately owned standard housing where the supply of such housing exceeds the demand and terminate the acquisition of existing, occupied, privately owned standard housing which is in the planning or early development stages and use the funds instead to finance the construction of new low-rent public housing projects or to purchase and rehabilitate existing substandard housing.

HUD did not agree because it felt that such a practice would be too restrictive. HUD commented that, despite an overall demand for unsubsidized housing in a community, some structures would not meet the demand for various reasons.

GAO agreed that, if certain standard housing had a high vacancy rate and could be purchased at an acceptable price, acquisition of such housing by an LHA would be beneficial. Of the 15 projects reviewed by GAO, however, all had low vacancy rates.

Acquired units are not being used to house those most in need

GAO's review showed that the acquisition of privately owned standard housing generally had not substantially reduced the number of families or persons living in substandard housing because many of the occupants of the acquired housing units had previously lived in standard housing. Some of the families occupying the acquired units had incomes exceeding the established limits entitling them to public housing. Also, some persons were occupying units larger than those suggested in HUD's guidelines.

Because only a relatively small number of the occupants of the acquired housing projects included in GAO's review had previously occupied substandard housing, there appeared to be a need for specific standard admission policies to insure that those families or persons most in need are given preference.

GAO suggested that the Congress might wish to require that LHAs give preference for admission to public housing to occupants of private substandard housing over those who are occupying private standard housing.

Hardships to former occupants of acquired properties

The acquisition of privately owned standard housing has provided standard housing to certain low-income families sooner than it could have been provided under the other methods but it has resulted in (1) hardships to former occupants of acquired projects who were forced to move and (2) loss of tax revenues to local governments. In some cases, the people forced to move were not assisted in relocating, although HUD regulations provided for it. Other displaced occupants were subjected to physical and financial hardships.

GAO recommended that HUD, prior to approving LHAs' acquisition of occupied, privately owned standard housing, require LHAs to adequately demonstrate that housing of comparable quality and rent existed in the area and that adequate relocation assistance would be available for tenants to be displaced.

Because it is awaiting the results of its housing studies, HUD took no action on GAO's recommendation.

Need to insure that prices of acquired properties are reasonable

Actions

GAO's review indicated that HUD needed to improve its procedures to provide adequate assurance that the prices of acquired properties are reasonable. GAO recommended that HUD establish appraisal requirements for the direct acquisition method similar to those established for the turnkey method which requires that two independent cost estimates be obtained and provide that the total price be no greater than the average of the cost estimates. Although HUD agreed with this recommendation, it took no action pending the results of the housing studies. (B-114863, Sept. 7, 1972.)

Standard #5

Results: it is implied that prices are not reasonable.

Scenario 2

1. a. Standard: The laws and regulations, as stated in the Elementary and Secondary Education Act.

   b. Actions: State Education Agency officials dod not evaluate comparability of services and, therefore, decreased the State and local fiscal efforts.

   c. Results: Expenditure of $520,750 in Title I funds.

2. This is a compliance type audit and, therefore, one strictly for accountability.

3. Congress and the Department of Health, Education and Welfare developed the standard; the auditor had no part in its formulation.

Scenario 3

1. There are five standards, actions and results involved in this scenario, as indicated on the preceding pages. This scenario illustrates the complexity and interrelatedness of public policy and action programs.

2. This audit focuses primarily on accountability and compliance with the law. Some attempt is made to suggest improved standards, such as "to give preference for admission to public housing to occupants of private sub-standard housing".

3. Most of the standards used are found in laws and regulations. GAO has suggested some new standards but did not use them to audit these programs.

Case III-3. The Definition of the Elements of an Audit

Since each audit will include the elements: the standard, the actions, and the results, and these elements will be considered in audit illustrations throughout the course, then, let us identify, by a specific designation, each of these three elements. We will use the same three words Leo Herbert uses in his book on Auditing. He identifies the three elements as:

1. Criteria: An appropriate standard, standards, or group of standards which can be used to measure the actions of management, employees, or their delegated agents in any audit situation.

2. Causes: Actions of management, employees, or their delegated agents which took place or actions which should have taken place in carrying out their assigned responsibilities.

3. Effects: Results achieved as determined by comparing actions taken (causes) with the appropriate standard (criteria).

These words are the same as standards, actions, and results previously used in the cases. They will be used throughout the rest of the course in liau of other words which may have similar meanings.

Distribute and discuss the definitions of these three elements of the audit (page VI.9.19 of the Material for Class Participants).

Section IV. Types of Performance Audits

The title of the course is Performance Auditing. The question is: "Is there only one type of performance audit?" Obviously not. Previous cases and illustrations have shown that there are different types. So, let us determine the various types of audits and classify them into performance audit characteristics.

Distribute Case IV-1 Characteristics of Audits (pages VI.9.20 through VI.9.31 of Materials for Class Participants) and review the definitions and descriptions of auditing with the participants before attempting to answer the discussion on Case IV-1 (page VI.9.22).

Marked-up scenarios with reference to the discussion questions follow. Participants should mark-up their copies of the scenarios in order to determine the best possible answers. Further information for class discussion follows each scenario problem.

SUGGESTED SOLUTION

Case IV - 1. Characteristics of Audits.

Scenario 1. Travel Advances.

Causes

We pointed out that funds for authorized travel were advanced to employees of the X Agency in amounts greater than necessary and reasonable to meet travelers' requirements pending periodic reimbursements, and that certain of these advances were allowed to remain outstanding for extended periods during which no travel was performed.

Do not

Criteria

In a review of travel advances totaling $10,000 at June 30, 19XX, made to 40 central office employees, we found that advances issued to 20 employees were in excess of their needs. These advances ranged from $120 to $500 and totaled $6,600, of which $4,400 was in excess of the travelers' needs. During the fiscal year 19XX, some of these 20 employees did not perform any travel and other employees' travel ranged from 1 3/4 to 61 1/4 days and their travel vouchers averaged from $42 to $147. Our review also revealed that two employees were holding travel advances at June 30, 19XX, although they had performed no travel for 13 and 24 months, respectively.

Effects

1 & 2. This is a management audit pertaining to the performance of efficient and economical operations. The agency will save several thousands of dollars by liquidating travel advances to individuals who do not need them. The question might arise as to whether this scenario is a fiscal compliance audit. The auditor is determining whether the agency is following proper procedures rather than prescribed procedures. Since there are no prescribed procedures, it cannot be a compliance audit.

3. Criteria: Do not advance to employees for travel amounts greater than necessary and reasonable to meet travelers' requirements pending periodic reimbursements and do not allow advances to remain outstanding for extended periods in which no travel is performed.

   Causes: The actions of Agency X's comptroller in advancing these amounts.

   Effects: Advances which were $4,400 in excess of the traveler's needs.

4. The standards are operational standards developed by the auditor. The causes, which are usually derived from these standards, are usually management or employees who must carry out the standards without considering the purposes behind the standards. The effects are most often stated as dollar amounts.

Adapted from a GAO audit.

SUGGESTED SOLUTION

Case IV - 1. Characteristics of Audits.

Audit Scenario 2. Expenditure Control.

We reported to the Congress that the Pacific Region of the / Agency had expended about $267,000 for goods and services which either were unnecessary or were justifiable only in part, considering conditions existing at the time and the very negligible benefits that accured to the Government.

a. A sound/alarm system for the Pacific Region headquarters building in Honolulu was leased for 10 years at an annual rental of about $10,500, or $106,000 for the 10-year period. According to the agency, this procurement was justified by the need for sounding the alarm signal for possible fire, tidal wave, or enemy attack, and for transmitting official messages and background music throughout the building. Inasmuch as (1) the lessor of the sound/alarm system had also installed a fire alarm system in the building and (2) the State of Hawaii had installed a civil defense warning system near the building, we questioned the need for the lease of the sound/alarm system.

b. The Region purchased 148 clothes dryers at a cost of about $12,500 for use by employees housed in Wake Island. Because of inadequate planning, the dryers remained in storage for about a year. An additional $25,000 had to be spent to modify and properly equip the housing in order to use the dryers.

c. On June 29 and 30, 19YY, the Pacific Region placed orders totaling about $15,600 for library books under conditions indicating that the principal objective was to obligate available funds prior to the end of the fiscal year rather than to order books for which there was real or urgent need.

d. Numerous other purchases-totaling about $46,000-were made, at the end of fiscal years 19XX and 19YY, the necessity of which appeared questionable.

e. Various items of equipment and supplies for major repairs were purchased for Canton Island at a cost of about $27,000, even though complete phase-out of the installation had been under consideration for sometime.

f. The Pacific Region incurred costs of over $30,000 directly related to ceremonies dedicating new facilities at three locations. We questioned whether the dedication ceremonies provided benefits to the Government commensurate with their costs.

Source: Adapted from a GAO audit.

Audit Scenario 2. Expenditure Control

1 & 2. This scenario also illustrates a management type performance audit. In this case, the auditor is trying to determine whether there are wasteful practices in the usage of the finances of the agency. It is also a good illustration of an accountability type of audit. The auditor is saying: "The Agency should be held accountable for spending the money so foolishly."

The question might arise as to whether the auditor has the right to question management's responsibilities to spend the money for dedicating the new facilities. Just what are management's rights and responsibilities? Should they take the responsibility for what they think is the proper expenditures?

3a. Criteria: Do not buy or lease equipment that duplicates other equipment.

Causes: The causes for all items in Scenario 2 would be the persons who had the responsibility for spending the money in the Pacific Region of Agency Y.

Effects: $106,000 represents a wasteful use of resources.

3b. Criteria: Do not buy equipment that cannot be used immediately and must be stored for a year before use.

Effects: $12,500 plus $25,000 represent a wasteful use of resources.

3c. Criteria: Do not obligate funds for which there was no real or urgent need.

Effects: $15,600 represents a wasteful use of resources.

3d. Criteria: Do not buy questionable items.

Effects: $46,000 represents faulty buying practices.

3e. Criteria: Do not purchase supplies and equipment for major repairs to installations which are to be completely phased out.

Effects: $27,000 represents faulty buying practices.

3f. Criteria: Do not spend money for dedicating new facilities unless the ceremonies provide benefits to the government commensurate with their costs.

Effects: $30,000 represents no useful purpose.

4. See comments under Scenario 1, question 4.

SUGGESTED SOLUTION

Case IV - 1. Characteristics of Audits

Audit Scenario 3. Program Costs not Charged in Accordance with Requirements and Policies.

Cause

The Department of Housing and Urban Development auditors found that a City Demonstration Agency (CDA) was not making office space payments in accordance with an adopted cost allocation plan.

Criteria

Requirements to be complied with

The city developed a cost allocation plan under the provisions of OMB Circular A-87 and HEW Guide OASO-8 and implemented this plan for charges to all city departments effective September 1, 1971. The plan provides for the computation of space costs (buildings and capital improvements) allocated to the various city departments (which includes CDA) on straight-line depreciation at an annual rate of 2.5 percent (40-year life).

Before adopting the cost allocation plan, the city's policy was to establish rental rates on comparable local space rates.

Criteria

The cost eligibility criteria in CDA Letter No. 8, part II, requires consistent application of the city's accounting policies and procedures for costs charged to the program.

Condition found by the auditors

CDA occupies a city-owned building consisting of 4,180 square feet. The city determined the monthly local rental rates for comparable space as 20 cents a square foot without utilities and janitorial services and 30 cents a square foot with those services.

Utilities and janitorial services for the building were paid directly by CDA. The monthly rental payments by CDA to the city were properly made through August 31, 1971, at $836 (4,180 sq. ft. at $0.20).

Causes

However, CDA did not revise the monthly rental payments to conform with the city's cost allocation plan that became effective September 1, 1971.

Source: The Comptroller General of the United States. Examples of Findings from Governmental Audits. The United States General Accounting Office. Washington, D.C., 1973. pp. 6 and 7.

Effect of noncompliance with requirements

As a result of not revising the rental rate to conform with the cost allocation plan effective September 1, 1971, CDA charged the program with an excess of $17,235.38 from September 1, 1971, through July 31, 1972.

CDA agreed that payments to the city for office space should be consistent with the city's cost allocation plan and that the excess charge of $17,235.38 was an improper program cost. → Effects

Auditors' recommendations

The auditors recommended that the Area Office Director:

1. Consider the excess charges of $17,235.38 as ineligible program costs and insure that CDA removes the amount from recorded costs by obtaining a refund from the city.

2. Require and insure that CDA charges office space after July 31, 1972, in accordance with the city's cost allocation plan.

While the word "program" is in the title of this audit, it is not a program audit but a management audit and a compliance type management audit. In this case, there would be a savings of $17,235.38 (effect) if the C.D.A. followed (causes) the cost allocation plan (criteria). Since the cost allocation plan is already stated, then the audit is to determine whether the agency has complied with that plan.

Some discussion might take place as to whether the cost allocation plan is reasonable and proper. In that case, a criterion might be developed by the auditor which would bring about a different effect than that cited in the scenario.

This scenario is adopted from the booklet "Examples of Findings from Governmental Audits." The GAO, as a matter of reporting policy, has determined that using the three elements of an audit is the best way to report. The standards for the audit have been developed by the Agency and accepted by the auditor.

SUGGESTED SOLUTION

Case IV - 1. Characteristics of Audits.

Audit Scenario 4. Snow Removal Program.

A State auditor found that the State's snow and ice removal program was not accomplishing its objectives because legislation made the State department of transportation's operations difficult.

Goal of the program

The commissioner of the State department of transportation is responsible for removing ice and snow from State roads. — Goal

Condition found by the auditor

Article 12 of the Highway Law authorizes the commissioner of the department of transportation to contract with counties for removing snow and ice on State roads. The statute also permits counties to select sections of State roads to either plow, sand, or apply other abrasives or chemicals. The department of transportation is obligated to service the remaining road mileage. This feature of the legislation is referred to as the "first preference" clause. — Criteria

Effect of not meeting the goals

Under the first-preference clause, counties have elected to service one section of State highways but not an adjoining section and resume service at another point on the road. This skip-patch-work operational pattern often results in State roads that have not been properly cleared of ice and snow. A county crew may spread salt on one portion of the State's highway only to have it removed later by the State's plow crews. Also, the State's work crews may not be able to plow or sand sections of highways until the county has serviced its portions. — Effects

Cause which contributed to failure to meet the goal

The first-preference clause of the Highway Law is permitting counties too much flexibility in location, amount of mileage selected, and in type of service performed. As a result, the department of transportation is unable to do adequate long-range planning for equipment purchases and staffing work forces. — Causes

This report contained no recommendations. However, the State's first-preference clause should obviously be amended.

Source: Ibid., pp. 24-25.

Audit Scenario 4. Snow Removal Program

This is a program audit dealing with the inadequacies of the legislature, the commissioner of the state department of transportion, and the counties to effectively remove ice and snow from the roads. The auditor noted that the goal of adequately removing the ice and snow from state roads had not been accomplished effectively. The suggestion was made that the criteria be changed. Since the stated criterion was the law (the first preference clause of the highway law), then the law would have to be amended by the state legislature so that the commission of the department of transportation, his employees, and the county employees could remove the snow and ice from the state roads (causes) more effectively (effects).

In a program audit, the auditor is trying to see whether the goal of the program has been carried out effectively. Therefore, the goal must be determined for each program audit. In this scenario, the law sets the standards for accomplishing the objective of adequately removing ice and snow from the state roads. Often the setting of inadequate standards is the cause of not accomplishing the goal. This scenario provides a good illustration of that point.

Causes in a program audit are still people either doing or not doing what they are supposed to be doing. Sometimes restrictions are placed on one person or group of persons by another which inhibits the accomplishment of the goal.

It also may be noted that in this scenario the effects are stated in other than dollar terms. Often this sort of statement is used in a program audit because of the difficulty of not being able to adequately measure the dollar loss (in this case, because of the roads not being adequately cleared).

SUGGESTED SOLUTION

Case IV - 1. Characteristics of Audits.

Audit Scenario 5. Uneconomical Package Sizes Used in a Commodity Distribution Program.

In an audit of the Commodity Distribution Program of the Department of Agriculture, GAO reported that savings could be realized if larger package sizes of commodities are used when possible.

Criteria used to measure efficiency and economy

The Department of Agriculture's instructions to State distribution agencies require that, to the extent practicable, commodities be donated to schools and institutions in the most economical size packages. When commodities are available in packages of more than one size, the instructions require that State agencies requisition the commodities to the maximum extent practicable, in large-size packages--such as 50-pound containers --for schools and institutions.

→ Criteria

Conditions found by auditors

In seven States covered by the review, distributing agencies were requisitioning foodstuffs for large users in small-size packages instead of large-size packages.

→ Causes

Effect on the conditions

A substantial part of the additional costs of providing flour, shortening, and nonfat dry milk in small containers to schools and institutions could be saved. GAO estimated that, nationwide, for fiscal year 1970 these additional costs totaled about $1.6 million.

→ Effects

Cause of the situation

Agriculture regional officials said that, although they encouraged State distributing agencies to requisition commodities in the most economical size package practicable, they had not questioned the propriety of State agencies' requesting commodities in small-size packages for schools and institutions and that they had not required the agencies to justify such requests because they believed the agencies were making the proper determinations as to package sizes.

→ Causes

Auditors' recommendations

In view of the savings available by acquiring commodities in large-size packages, GAO recommended that Agriculture take appropriate action to have

regional offices vigorously enforce the requirement that State agencies requisition commodities--particularly, flour, vegetable shortening, and nonfat dry milk--in the most economical size packages practicable. GAO recommended also that State agencies be required to justify, when necessary, the requisitioning of the commodities in small-size packages for schools and institutions.

This scenario also has the word program in its title. However, it is not a program audit, but a management audit. It would be much more economical to use the larger packages (about $1.6 million). Current practices represent an uneconomical use of resources.

The criteria, causes, and effects are explicitly stated in the scenario. The only difference is that the condition and causes are separated for reporting purposes.

24

Source: Ibid., pp. 19-20.

SUGGESTED SOLUTION

Case IV - 1. Characteristics of Audits.

Audit Scenario 6. State Employment Program.

GAO reported this situation where the objectives of a State employment program were not realized.

Goal of the program

The Department of Labor's Concentrated Employment Program (CEP) was designed to combine, under one sponsor and in a single contract with one funding source, all manpower training and other services necessary to help persons move from unemployability and dependency to self-sufficiency. CEP seeks to accomplish this objective among persons in a designated target area by (1) making intensive outreach efforts to bring persons into work-training programs; (2) presenting a variety of job-training opportunities to applicants; (3) providing such supportive services as day care for children, transportation, and health care; and (4) placing applicants in jobs.

Goal

Criteria

Condition found by the auditor → Causes

From December 1968 through February 1970, of the 6,732 persons enrolled in the program, 3,333 received some training or work experience and 2,586 were placed in jobs. About one-half of those placed in jobs, however, did not receive any orientation, training, or work experience. Often they were limited to the same types of low-skill jobs they held before joining the program.

Many placements were only temporary. Only 56 percent of the persons placed were employed 6 months later. Many had changed jobs during the 6-month period.

Many enrollees were placed in jobs requiring similar or lower level skills than those required in previous occupations. Only about one-half of the jobs increased the wages employees were receiving before entering the program.

Job placement was not always related to the type of training an enrollee received. For example, a person trained as a welder was placed as a janitor, an offset printer as a mail clerk, and an automobile mechanic as a maintenance man.

Effects

Effect of not meeting the goals

About $14 million was spent on CEP in the Mississippi Delta from June 1967 through December 1971.

Causes

Cause which contributed to failure to meet the goal

CEP's effectiveness was hindered by

--economic slowdown which closed or cut back operations of some companies in the area,

--the special nature of the disadvantaged residents of the area--minority group farm-workers accustomed to seasonal employment,

--a stagnant economy,

--an insufficient labor demand,

--a labor force consisting largely of black farm-workers without necessary educational and vocational skills, and

--the large area and widely dispersed population that the program was trying to reach.

Increased mechanization has displaced many farm-workers in the traditionally agricultural delta area. New job opportunities have been scarce because industries have been slow to come into the delta and available jobs have required skills which enrollees do not have and cannot obtain reasonably.

Auditors' recommendations

The Congress is currently considering measures that will seek to revitalize the economy and increase job opportunities in such rural areas as the Mississippi Delta. The Secretary of Labor should try to improve the effectiveness of CEP by insuring that skill training and other manpower services are provided with due regard to the capabilities and needs of program participants and available job opportunities and by making all possible use of work experience programs and other subsidized employment, such as public service jobs funded under the Emergency Employment Act of 1971, for those participants who cannot be placed readily in jobs.

This is a program audit; a major distinction between management audits and program audits is that the goal of the program must be clearly stated in a program audit. The scenario adequately defines the criteria, causes, and effects (it may be noted that a dollar value--about $14 million--is shown as the effect in this scenario). However, the criteria is stated under goals rather than being separated. Again, much of the causes are found under the title "condition" as well as under causes.

Section V -- Audit Objectives and Audit Evidence

A. Audit Objectives

Case V - 1. Preparing Audit Objectives

1. By this time, the student has found that each audit conclusion has three essential elements--criteria, causes, and effects. These three elements are the foundation for whatever the auditor finds in his audit, but are not necessarily everything reported to the third party. For, the auditor often provides background data and scope of audit information to the reader to let him know more about the conditions pertaining to the conclusion of the audit. And, he also may recommend certain actions which should be made. The basic audit conclusion, however, is always composed of the three essential elements.

The auditor cannot reach a conclusion from evidence unless he has fairly specific guidelines pertaining to the nature of what he is to audit. For he should only gather evidence relating to the specific objectives of the audit. Therefore, the audit objective is a question or a statement at the start of the detailed examination concerning the end results expected. The evidence gathered will allow the auditor to reach a conclusion on the statement or to answer the question.

2. Each audit, then, must have a question or statement concerning the desired expectations in order for the auditor to gather evidence on that question or statement. This statement or question is called the audit objective.

3. The audit objective must be stated before evidence can be gathered, since evidence allows the auditor to come to a conclusion on the audit objective.

This statement of the audit objective will include the same three elements as found in the audit conclusion--criteria, causes, and effects.

After discussing these points with the participants, three scenarios used previously in Case III-2 should be distributed to the students (pages VI.9.32 through VI.9.38). The instructor/class leader should review thoroughly these scenarios with the students to be assured that they know what an audit objective is and how to prepare one. Since the illustrations show the preparation of audit objectives from the final audit product, a question might arise as to how an auditor can prepare an audit objective without working backwards or without having the end product before he starts. The manner of determining objectives by working forward instead of backwards will be discussed in the next section. The purpose of this discussion is to let the student know what an audit objective is and how to state it. The way the auditor arrives at the audit objectives at the beginning of the detailed examination can be understood if the audit objective is understood.

After reviewing the scenario materials in the participants manual that illustrate audit objectives, Audit Scenarios 4 through 9 (pages VI.9.39 - VI.9.46) should be distributed and the participants asked to prepare audit objectives for each of these six scenarios (or alternatively, the participants could be organized into six task groups, with each group assigned responsibility for identifying the appropriate audit objective for one of the six scenarios).

The following are possible solutions to these scenario assignments:

Audit Scenario 4. Travel Advances

One suggested solution to this scenario would be:

> Has Agency X advanced amounts to individual travelers (causes) which in the aggregate totals more than $5,000 (effects) and which individual amounts are greater than the traveler would reasonably need or which he is not using for extended periods (criteria)?

Another way of stating the objective would be:

> Determine is Agency X is advancing amounts to individual travelers (causes) which in the aggregate totals at least $5,000 (effects) more than they would reasonably need or which they do not use for extended periods (criteria)?

Audit Scenario 5. Expenditure Control

This scenario is one large scenario composed of several small parts. The objective can be stated as one objective for all parts or as individual objectives for each part.

The overall objective would be stated somewhat as follows:

> Has the Western Region of Agency X expended funds for leasing equipment, for buying equipment, for buying library books, for buying supplies and equipment for repairs, and for ceremonies related to dedicating new facilities (causes) amounting to more than $200,000 (effects) which is duplicative of other equipment which is available to use, which will not be used for a long time and will have to be stored, which will be used only to obligate funds, and which will not have value commensurate with costs (criteria)?

The objectives for the individual parts would be stated somewhat as follows:

a. Has the Pacific Region of Agency X spent funds to lease sound alarm system equipment (causes) amounting to more than $100,000 (effects) that is duplicative of other available equipment (criteria)?

b. Has the Pacific Region of Agency X spent funds to buy clothes dryers (causes) amounting to more than $10,000 (effects) that will not be used for at least a year and will have to be stored indefinitely (criteria)?

c. Has the Pacific Region of Agency X obligated funds for library books (causes) of at least $15,000 (effects) for which there is no real or urgent need (criteria)?

d. Has the Pacific Region of Agency X made numerous other purchases (causes) amounting to $46,000 (effects) for which there is an apparent questionable need (criteria)?

e. Has the Pacific Region of Agency X purchased supplies and equipment for major repairs (causes) amount to $30,000 (effects) for an island base which is to be completely phased out (criteria)?

f. Has the Pacific Region of Agency X spent for ceremonies for dedicating new facilities (causes) $30,000 (effects) for which the costs are not commensurate with the benefits (criteria)?

Audit Scenario 6. Program Costs Not Charged in Accordance with Requirements and Policies

Is the City Demonstration Agency paying rental rates (causes) above $5,000 more than they should have paid (effects) because the rates were not in accordance with the city's cost allocation plan which is in accordance with OMB Circular A-87 and HEW Guide OASO - 8 (criteria)?

Audit Scenario 7. Snow Removal Program

Have the State Department of Transportation, the counties through such tactics as skip-patch-work pattern, and the legislature through passing Article 12 of the Highway Law, not carried out their responsibilities (causes) for making the roads safely passable during winter months (effects) by thoroughly removing ice and snow from all state roads (criteria)?

Audit Scenario 8. Uneconomical Package Sizes Used in a Commodity Distribution Program

Is the practice of the Commodity Distribution officials and employees of the Department of Agriculture in not enforcing and the officials and employees of state distributing agencies in not carrying out (causes) the requirement that commodities be obtained in the most economical size packages, such as large size packages or containers (criteria) costing the government more than a million dollars a year (effects)?

Audit Scenario 9. State Employment Program

Because of economic slowdown, the nature of the disadvantaged residents, an insufficient labor demand, a labor force consisting largely of black farmers without necessary educational and vocational skills, increased mechanization in the agricultural area, and a large area with widely dispersed population the program is trying to reach, has the Department of Labor through contracting with one funding source (causes) effectively spending the money for accomplishing the goals of helping persons move from unemployment and dependency to self-sufficiency (effects) by (1) making intensive outreach efforts to bring persons into work-training programs, (2) presenting a variety of job-training opportunities to applicants, (3) providing such supportive services as day care for children, transportation, and health care, and (4) placing applicants in jobs (criteria)?

Case V-2. Audit Evidence

Pages VI.9.47 through VI.9.55 should be distributed and the participants given time to read the material on audit evidence. The three illustrations, adopted from the previous case materials, should then be discussed to illustrate the concepts of audit evidence, after which, the students--individually or in task groups--should work out the additional scenarios given in the case (pages VI.9.56 through VI.9.59). Suggested solutions to these scenario assignments are provided below and on the following page.

Scenario 3. Uneconomical Package Sizes Used in a Commodity Distribution Program

Analysis of Evidence

Number	Evidence	Where From	On Which Element	Comments
1	No			Conclusion
2	Yes	Records	Criteria	
3	Yes	Records	Criteria	
4	Yes	Records and Observations	Causes	
5	Yes	Analysis	Effects	
6	Yes	Analysis	Effects	
7	Yes	Interviews	Causes	
8	No			Conclusion and Recommendation

Case V-2. Audit Evidence

Scenario 4. State Employment Program

Analysis of Evidence

Number	Evidence	Where From	On Which Element	Comments
1	No			Conclusion
2	Yes	Records	Goal for Criteria	
3	Yes	Records, Interviews, Observations	Criteria	
4	Yes	Records	Causes	
5	Yes	Records, Interviews	Causes	
6	Yes	Records, Interviews	Causes	
7	Yes	Records, Interviews, Observations	Causes	
8	Yes	Records, Interviews, Observations	Causes	
9	Yes	Records, Interviews	Causes	
10	Yes	Analysis	Effects	
11-19	Yes	Records, Interviews, Observations	Causes	
20-21	No			Recommendations

Section VI -- The Phases of an Audit

The Material for Class Participants dealing with the phases of an audit (pages VI.9.60 - VI.9.63) should be distributed at this point and discussed. The following descriptions of the audit phases listed on page VI.9.63 are taken with permission from Leo Herbert's book on performance auditing, and should provide the basis for further elaboration by the instructor/class leader on these points.

The Preliminary Survey

The purpose of the preliminary survey phase of the audit function is for the auditor to obtain background and general information in a relatively short period of time on all aspects of the organization, activity, program, or system being considered for examination, in order to give the auditor a working knowledge of the organization, activity, or system. At this point of time, this background and general information is not evidence. It is descriptive information concerning the organization and its activities. It includes historical and operating information for the activities of private and governmental organizations as well as legislative information on the activities of governmental organization.

This background and general information could be as follows: for an organization -- its location, its management, its history, the number of its employees, the type of examination to be made, the organization's policies, its legal requirements, its charter, and its obligations; for an activity -- the type of activity, its location, persons responsible for the activity, any policies pertaining to the activity, and specific procedures for accomplishing the activity; for the program -- purposes and objectives of the program, interrelationships of organizations used for accomplishing the objectives, policies and procedures for accomplishing the program, and administrative regulations related to the program.

From this background and general information, the auditor should have a good working knowledge of the organization, activity, program, or system being considered for examination. And from this information the auditor should be able to identify some evidence -- relevant, but not necessarily material, competent, or sufficient -- on one of the elements of a possible specific audit objective. He can identify evidence on any one of the three elements -- criteria, causes, or effects -- but at the same time to have a possible audit objective he must assert the other elements.

Thus, in the survey phase, a preliminary determination is made from the background data, assertions, and alternative assertions as to just what the tentative audit objective should be. But, at this point in time, the objective is only tentative. Only relevant evidence has been obtained, not necessarily sufficient, material, or competent evidence.

And, since only relevant evidence -- not sufficient, material, and competent -- has been obtained on one or more of the elements of the possible objective, the conclusion in this phase would result in only a tentative audit objective on a specific subject. The auditor will need to know that he can obtain sufficient evidence, that is also material, competent, and relevant, on all three elements, if he expects to complete his examination and arrive at a reportable conclusion or opinion.

The auditor, however, would not move toward obtaining more evidence unless he was fairly certain he should continue the audit. In fact, withdrawing from the examination is one of the possible conclusions he can reach in this phase. For example, the client may want the auditor to express an opinion on the fairness of the statements without examination. The auditor would have no recourse but to withdraw from the examination.

In addition, the auditor would not move directly toward obtaining sufficient evidence to arrive at a reportable opinion or conclusion until he was sure, first, that he had enough evidence on all three elements that he could have a specific and workable objective, and second, that the evidence he will obtain from the entity is competent.

When the conclusion on the survey phase is converted to a question or statement it then becomes the objective for the review phase. It also becomes the basis for determining how to obtain the evidence and how much evidence is needed for the phase which reviews and tests internal and management control.

The Review and Testing of Management and Internal Control

Since the auditor has arrived at only a tentative audit objective in the preliminary survey phase, he must take that tentative objective and by obtaining evidence on all three elements make it into a firm objective on a specific subject. To do that he must know that he can obtain evidence on all three elements of the objective and that any evidence he obtains from the entity would be competent.

So, the purpose of the review phase would be (1) to obtain evidence on all three elements of the tentative objective through actual testing of transactions of management or internal control of the entity, and (2) to determine that the evidence obtained from within the organization would be competent if the audit were extended into a more detailed examination. If not competent, the auditor should determine the best possible alternative for obtaining competent evidence.

The term "management control," as used here, embraces the entire system of organization; the planning, including policy and procedure determination; as well as the actual practices carried out in managing an entity's affairs. It promotes the carrying out of assigned

responsibilities effectively and in the manner and with the results intended.

Management control often goes beyond the internal management of a company. For example, when the independent C. P. A. audits the financial statements of an organization, he becomes a part of the organization's management control system. But, he should not be a part of the entity's internal management.

When dealing with the internal management of an organization, management control means the same as the term internal control, as defined by the American Institute of Certified Public Accountants' statement on Auditing Standards.[1]

> Internal control, in the broad sense includes..... controls which may be characterized as either accounting or administrative as follows:
>
> Administrative control includes, but is not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions.* Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.
>
> Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:
>
> a. Transactions are executed in accordance with management's general or specific authorization.
>
> b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.

---

[1]American Institute of Certified Public Accountants, Committee on Auditing Procedures. Statement on Auditing Standards #1. American Institute of Certified Public Accountants, Inc., 1973. pp. 15-20. Copyright 1973 by the American Institute of Certified Public Accountants, Inc.

*This definition is intended only to provide a point of departure for distinguishing accounting control and, consequently, is not necessarily definitive for other purposes.

c. Access to assets is permitted only in accordance with management's authorization.

d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Again citing the writings of Leo Herbert:

The Comptroller General's Standards of auditing specifically state that the purpose of a review of internal control is to determine the extent of tests necessary in the detailed examination. Another important purpose is to firm up the tentative objective determined in the preliminary survey phase and assure that it should be the audit objective for the detailed examination.

By obtaining evidence on both the tentative audit objective and the competency of the evidence the auditor comes to a conclusion which he then would use as his detailed examination objective.

One of the possible conclusions could be that he should stop all work and withdraw from the examination. But most conclusions for this phase would be one that could be converted into the detailed examination objective on which now sufficient relevant, material, and competent, evidence needs to be obtained before an opinion or conclusion can be drawn on that objective. Knowing what evidence needs to be obtained, the auditor can thus plan for obtaining that evidence.

The Detailed Examination

The detailed examination phase is the phase normally thought of as the audit. However, the prior two phases are just as important as the detailed examination phase, because in those two phases what is to be done in the detailed examination phase and how it is to be done is determined.

The evidence in this phase will have to be sufficient as well as competent, material, and relevant in order to arrive at an acceptable conclusion or opinion which can be reported to a third party.

The Report Development

All work done in the audit function leads to this phase. The purpose of this phase is to take the opinion or conclusion developed from the evidence on the audit objective in the detailed examination phase and convert it into a form that an interested third party can accept and understand. Various means have been developed over the years

for the best methods of presentation of an opinion or conclusion of an audit to third parties. For example, the standard short form report has been developed for expressing an opinion on financial statements.

The method of presenting management and program conclusions generally follows one of the two patterns shown in Exhibit VI-1, reproduced here with permission from Leo Herbert. The phases for the examination function for any type of auditing activity can be illustrated graphically as shown in Chart VI-1 (page VI.9.78), also from the writing of Leo Herbert.

Case VI-1. The Performance Audit (Management Audit) of a Large City Garage--The Phases of an Audit

Since the scenarios in this case study (pages VI.9.64 through VI.9.76) represent a continuum, i.e., the beginning of each new scenario contains a suggested solution to the preceding scenario, scenario 2 should not be distributed until scenario 1 has been thoroughly discussed, and so on.

This case obviously represents an accountability type audit. Had it been a management control type, the auditors would have worked with the garage officials and would have corrected the deficiencies in performance with the report coming out that the garage had made the corrections and were proceeding correctly.

Yet, one can see why auditors adopt an accountability audit format when the rewards to the auditor are considered. The auditor is rewarded most often by his superiors when he comes up with a reportable finding rather than when he works with an agency to correct a deficiency. These conflicts often cause the auditor to be on the defensive. Until some method can be devised of rewarding the auditor for helping to improve the performance of the agency he audits, most of the reports will be of the accountability type.

Participants may assert that this case does not relate to reality; yet, it has been developed from a real case pertaining to aircraft. The part which may seem unreal may be the platinum tipped plugs. However, electronic ignition systems may be acceptable as an innovation, and if the class desires, they can opt for electronic ignition systems instead of platinum tipped spark plugs. Members of the class who know automobiles may want to consider such other areas as the points, carburetor, or other aspects of an automobile checked during normal servicing.

The instructor may also go into the various areas of responsibility which caused this situation. Who should have continued to develop the standards in the technical manual? Who should have been supervising the servicemen to see that the standards were followed? One can easily see in this case study that the breakdown in the communication system often leads into areas which can be improved.

Exhibit VI-1

FLOW OF INFORMATION FROM THE DETAILED EXAMINATION PHASE TO THE REPORT DEVELOPMENT PHASE

Detailed Examination Phase

1. Detailed Examination objective - Did actions of individuals - based on criteria -cause significant effects?

2. Evidence - Sufficient, relevant, material and competent evidence on which the auditor can come to an opinion or conclusion. (The rhetoric of presenting the evidence must be such that there is no question as to its acceptability as evidence.)

   (a) Criteria - Evidence which demonstrates that criteria is acceptable.

   (b) Causes - Evidence which demonstrates that a person or persons at specific levels of responsibility caused actions which resulted in significant effects.

   (c) Effects - Evidence which demonstrates that resultant effects are significant.

3. Conclusion - Conclusion on detailed examination objective. Based on evidence, the answer could be:

   (a) That action or lack of action of individuals, based on acceptable criteria, caused significant effects--conclusion is ready for reporting.

   (b) That action or lack of action of individuals, based on acceptable criteria, did not cause significant effects--conclusion need not be reported.

Report Development Phase

Pattern 1

1. Conclusion - Same as conclusion in detailed examination. The elements--action or lack of action caused significant effects based on acceptable criteria--ordinarily will be stated with the most important element first.

2. Evidence - Evidence on which above conclusion is reached--same as evidence in detailed examination phase. (The auditor may characterize the evidence in order to make it more interesting and acceptable to the reader.)

3. Recommendation - If action in future is carried out in accordance with appropriate plan (criteria) the resultant effects should be good.

Pattern 2

1. Audit objective - Same as in detailed examination.

2. Evidence - Same as evidence in detailed examination

3. Conclusion - Same as conclusion in detailed examination.

4. Recommendation: If action in future is carried out in accordance with criteria, then, the resultant effects would be good.

Chart VI-1

A CONCEPTUAL MODEL FOR AUDITING AND COMMUNICATING INFORMATION ABOUT AND TO MANAGEMENT

THE AUDIT			THE COMMUNICATION
Phase I Define Possible Objective Consider Alternative Objectives	Phase II Delimit Objective	Phase III Come to Conclusion on Objective	Phase IV Report Conclusion
The Auditors: (1) Should obtain background information on the area being considered, (2) Should obtain evidence on one or more or the elements--criteria, causes, or effects--of a possible audit objective in the management process being audited: (a) By analyzing background data, (b) By interviews, records examinations, or observations, (3) Should assert the other element or elements to have a possible audit objective, (4) Should assert alternative criteria and other elements to establish possible alternative objectives, (5) If possible alternative objectives are to be considered, should obtain evidence on one or more elements of the possible alternative audit objective when no evidence has previously been obtained, (6) Should summarize evidence and assertions, (7) Should conclude from evidence and assertions that they: (a) Should go tn Phase II on the audit objective or, (b) Should stop.	The Auditors: (1) Should obtain additional background information on the management area being reviewed, (2) Should obtain sufficient evidence on audit objective to determine either: (a) That there could be a reasonable and firm criteria, (b) That action or lack of action at one or more levels of responsibility could cause an effect, (c) That the possible effects could be significant, or (d) That evidence could not be obtained on the three elements of the audit objective, (3) Should summarize the evidence obtained, (4) Should conclude whether the evidence warrants that they (a) Should go to Phase III, or (b) Should stop.	The Auditors: (1) Should obtain additional background information (2) Should obtain additional evidence on the audit objective to determine: (a) The acceptability and appropriateness of criteria and that any arguments against acceptability and appropriateness of criteria can be rebutted. (b) The specific action or lack of action at levels involved which caused the effects, (c) The significance of the effects, or (d) That for the audit objective, no appropriate criteria, no determinable causes, or no significant effects can be determined, (3) Should summarize evidence in terms of criteria, causes, and effects, (4) Should conclude from the summarized evidence that the effects are significant when the results of the actions are evaluated against the criteria, and, (5) If the evidence supports the conclusion, should report finding, Phase IV, or, (6) If the evidence is not sufficient to support conclusion: (a) Should obtain additional evidence to support conclusion, and report finding, or, (b) Should stop.	The Auditors: (1) Should obtain additional background information needed to communicate conclusion on audit objective examined in Phases I, II, and III. (2) Should communicate the conclusion to the audit objective: (a) Should set the scene through the use of background data and statement of the audit objective, (b) Should provide reader sufficient evidence on criteria, causes, and effects to let him come to the same conclusion on the audit objective as the auditors, (3) Should provide recommendations to the proper levels of management to carry out criteria as standard for future management actions.

VI.9.78

Section VII -- Performance Auditing for Improving Management's Efficiency and Economy

This section is strictly a case study, based upon a report by the General Accounting Office (GGD-76-46) entitled, "How the District of Columbia Might Better Manage Its Tax Compliance Program," March 12, 1976. A copy of this report is included in these instructional materials as Appendix A. The class leader may want to work from the actual report.

This case study illustrates an efficiency and economy audit. Often the auditor or manager thinks only of cutting costs to improve economy and efficiency. As this case study illustrates, however, increasing revenues may also improve operations.

The first scenario in this case study pertaining to the preliminary survey (pages VI.9.79 through VI.9.85) should be distributed at this point. After reading and studying the material, the participants should be able to come up with one or more audit objectives pertaining to improving the revenue picture of the State of ABC. The participant might want to approach the scenario by making several objectives instead of only one. However, the suggested solution given to the students at the beginning of scenario 2 shows only one objective with several criteria.

You may find that the students will want to spend some time in discussing the statement of objectives in terms of accountability versus management control. If so, they will want to know whether the auditor is trying to find out what is wrong, or is trying to find out how to carry out the activities in the best manner possible.

Upon completion of the discussion on scenario 1, scenario 2 (pages VI.9.86 through VI.9.91) should be distributed and discussed. The participants in this scenario may want to go much further than the information allows or the answer given at the beginning of scenario 3 suggests. However, it should be understood that there is no such thing as a rigid cut-off of phases in the audit process. The auditor could have accomplished the preliminary survey and the review and testing of management control at the same time. In addition, he can often obtain information during the preliminary phases which can be applied during the detailed examination.

The purpose of breaking down the audit into phases is to be better able to accomplish the audit in the most efficient and effective manner. There is no reason to continue an examination when all indications show that the operations are being carried out efficiently and effectively. Yet many auditors, looking for a chance to find something wrong, will carry out the preliminary phases to the extreme, thus wasting both their time and the time and money of the agency or company.

Case VII-1: Scenarios 3 and 4

Scenario 3 (pages VI.9.92 through VI.9.101) should be distributed upon the completion of the discussion of scenario 2. The suggested solution to the Preliminary Review and Testing of Management Control is given as the foreword in scenario 3.

There may be some discussion as to whether the evidence is adequate to support the conclusion as presented. It must be understood that the information shown as evidence in scenario 3 is only a summary of the evidence that the auditor would have obtained.

Any reader of the scenario may want quite a bit of information on the background, purposes, and general principles of self-assessment taxes. If this material is presented, then the reader should be able to understand how adequately communicating information about the tax law and requirements would improve the revenue picture for the state. Otherwise, he might think that any additional communication effort might only result in additional costs to the state.

Scenario 4 (pages VI.9.102 through VI.9.104) should be distributed and discussed upon the completion of scenario assignment 3. It would seem appropriate that the Audit Report contain recommendations to the Governor and the Commissioner of Revenue for certain actions to take place. For example, the auditor should recommend to the Governor that revisions be made in the state taxation laws to bring these laws in conformity with the federal law regarding state and federal tax returns. In addition, the recommendation should state that the Commissioner of Revenue should institute procedures for the following:

(1) Adequately communicating information concerning the State laws on self assessment taxes.

(2) Providing adequate help to taxpayers including understandable instructions and forms and taxpayer assistance.

(3) Developing computerized lists of taxpayers who have had income tax withheld and relating to Federal returns to identify and follow up on non-filers.

(4) Developing lists from inside and outside the Department of sources of possible taxpayers who presently are not paying any of the sales or income taxes.

(5) Developing computerized lists of sales tax taxpayers and matching returns with lists.

(6) Promptly determining whether a business is non-profit and therefore exempt from income taxes but not sales taxes or it is a profit business and liable for both sales and income taxes.

(7) Field auditing returns selected by computer from standards which determine the possibility of maximum benefits for dollars invested.

(8) Desk auditing selected random returns and notifying taxpayers that their returns have been audited and accepted as correct or that additional tax is due.

(9) Immediately starting collection procedures when a tax becomes delinquent.

Section VIII -- Performance Auditing for Determining the Effectiveness of a Program

This final section is composed of a case study and four different scenario assignments. The case study involves a review of a local jails program of the City of X and is based on information contained in a GAO report (GGD-76-36) entitled, "Conditions in Local Jails Remain Inadequate Despite Federal Funding for Improvements," dated April 5, 1976. A copy of this report is available as Appendix B to these instructional materials or may be obtained directly from the General Accounting Office.

The general definition of a program suggests that those individuals or groups responsible for implementation must have an objective to be accomplished. If they are to effectively accomplish the program objective or objectives, persons in charge often must cross jurisdictional lines. The recognized linkages between program objectives and accomplishments (effectiveness) in performance auditing underscores the close relationship between this auditing approach and the concepts and practices of program budgeting (as discussed in module 6 of this NTDS series). The program audit of performance auditing procedures evaluates the program in order to determine whether the objectives have been accomplished.

Most public programs are usually very large and somewhat complex. Therefore, in developing a case study which would allow the student to understand the concepts of program auditing, seldom will time constraints permit all of the information needed to be in-place or allow the student to do all of the work necessary to understand fully the complexities involved in reviewing a program. For example, cost-benefit and cost-effectiveness studies (the subject of module 5 in this current NTDS series) could be made in almost any program in order to determine the level of effectiveness attained. Often in a program audit, however, it is unnecessary for the auditor to compute the costs and benefits or the cost effectiveness of the program. Rather, the auditor has only to determine whether the program has or has not effectively accomplished its purposes. Recommendations can then be made to those responsible for the program regarding the development of studies to show which processes will accomplish the program in the most cost-effective manner.

Another problem often encountered in program analysis is that, in government, often the information that is necessary or that can be used to measure the accomplishments of a program is rather scarce. Therefore, the auditor frequently must develop a great deal of information himself, which he was unable to obtain from the agency's information or accounting system. As a consequence, in making a program audit, the auditor often will gather just enough evidence to convince management that the program is or is not effective, but not enough to accurately measure the level or degree of effectiveness.

Scenarios for Section VIII

Scenario 1, The Preliminary Survey (pages VI.9.105 through VI.9.114) should be distributed at this point. It will take some time for the participants to read and digest the material. Yet, they should be interested enough in the information given to spend the time to read the entire case. There are so many problems that could be discussed from the case materials that the instructor will have to watch very carefully or the discussion will center on the preliminary survey instead of the total program review.

Only allow the participants sufficient time to make a decision as to whether they can come up with a tentative objective for this program. The instructor should allow the participants no more than 45 minutes to read and then to discuss the scenario. Since a tentative objective is given as the introduction to scenario 2, no additional possible solution is given for the instructor.

After the discussion and an agreement on a tentative solution to scenario 1 is reached, scenario 2 (pages VI.9.115 - VI.9.118) should be distributed. Do not allow the discussion to continue too long or there will be insufficient time to complete the entire case study. One hour should be the maximum time spent on scendario 2.

Scenario 2 brings out that the auditor must ascertain whether a measurable standard can be developed before he proceeds too far in the evidence gathering process. The standards applicable to this program follow fairly closely from those stated in the court decisions outlined in scenario 1. It is not necessary that the participants agree with all of these standards, but if they do not, then what remedy exists if one of the inmates brings court action against the city?

Upon completion of the discussion on scenario 2, distribute scenario 3 (pages VI.9.119 - VI.9.125). The introduction to scenario 3 provides a possible solution to the questions raised in scenario 2.

The introduction to scenario 4 gives a possible answer to the required questions and discussion of scenario 3. This final scenario (pages VI.9.126 through VI.9.127) should be distributed following the discussion of the Detailed Examination. This Report scenario should bring together all of the information which was obtained on the local jails. The auditor has the information, but the recipient of the report only has the information which the auditor places in the Report. The instructor may want to discuss with the participants the answers that they would have given if they had only the report rather than all of the information the auditor had (as detailed in the first three scenarios of this section).

The participants may suggest other recommendations or a different approach to the conclusions. They should be sure, however, that they have sufficient evidence to support their conclusions or the recommendations.

Section IX -- Wrap-Up and Evaluation Session

This session should be used by the instructor to evaluate just what was learned by the participants and how the instruction of the course or workshop could be improved. It may be appropriate to ask the participants to prepare a written evaluation of the course, rather than having only an oral evaluation. Usually, not much time is left for this section. Therefore, if the written evaluations cannot be prepared during the workshop, the participants can be asked to send their evaluations to the instructor after they have returned to their jobs and have had a little time to reflect on the materials covered in the workshop.

APPENDIX A

UNITED STATES
GENERAL ACCOUNTING OFFICE

HOW THE DISTRICT OF COLUMBIA MIGHT BETTER MANAGE ITS TAX COMPLIANCE PROGRAM

The District should have a system for identifying and analyzing the reasons that individuals and businesses are not voluntarily complying with its tax laws. Such a system would allow the District to better communicate tax law requirements to the public and improve assessment and enforcement procedures.

GGD-76-46 March 12, 1976

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

General Government
Division

B-118638

To the Mayor and Council
of the District of Columbia

This report describes the District's program for encouraging individuals and businesses to comply voluntarily with District tax laws. An information system is needed as a better basis for focusing management's attention on problem areas.

Section 736(b)(3) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving a GAO audit report, to state in writing to the District Council what has been done to comply with our recommendations and send a copy of the statement to the Congress. Section 442(a)(5) of the same act requires the Mayor to report, in the District of Columbia's annual budget request to the Congress, on the status of efforts to comply with such recommendations.

We are sending copies to interested congressional committees and the Director, Office of Management and Budget, as well as the Directors, Office of Budget and Management Systems, Department of Finance and Revenue, and Office of Municipal Planning.

Victor L. Lowe
Director

CONTENTS

		Page
DIGEST		A1
CHAPTER 1.	INTRODUCTION	A2
	Scope of Review	A3
CHAPTER 2.	NEED FOR SYSTEMATIC ANALYSIS AND EVALUATION OF COMPLIANCE PROGRAM RESULTS	A4
	Information Not Available for Effective Analysis and Evaluation	A4
	System for Analyzing Compliance Program Not Established	A12
	Conclusions and Recommendations	A13
	Mayor's Comments	A13
CHAPTER 3.	SUGGESTIONS FOR IMPROVING TAX ADMINISTRATION	A15
	Establishing Computerized Master Tax Files	A15
	Closer Monitoring of Tax Exempt Organizations	A16
	Tax on Restaurant Carryout Sales Increased	A18
	Conclusions	A18
APPENDIX I.	Letter from the Mayor-Commissioner of the District of Columbia, dated December 1, 1975	A19

ABBREVIATIONS

DFR	Department of Finance and Revenue
IRS	Internal Revenue Service
OMAI	Office of Municipal Audit and Inspection
TALD	Tax Audit and Liability Division
TCRD	Tax Compliance and Registration Division

REPORT TO THE MAYOR AND COUNCIL OF THE DISTRICT OF COLUMBIA

HOW THE DISTRICT OF COLUMBIA MIGHT BETTER MANAGE ITS TAX COMPLIANCE PROGRAM

D I G E S T

Self-assessment and voluntary payment of taxes are fundamental to a successful district tax program. The District Collected about $396 million in fiscal year 1975 through taxpayers' voluntary self-assessments.

The District has encouraged voluntary compliance with tax laws by an active program of taxpayer assistance and enforcement: identification of and followup on nonfilers, audit of tax returns, and collection of delinquent taxes. However, more could be done. Systematic analysis and evaluation of the program should help the District to achieve greater voluntary taxpayer compliance and to receive revenue that otherwise would require enforcement effort.

The District must find out why people (1) need help with their tax returns, (2) do not file returns or pay their taxes, and (3) make mistakes in preparing their returns. With such insights, the District should know more precisely when it needs to (1) better inform the public and (2) improve assessment and enforcement procedures. The District needs to establish a system for analyzing the voluntary taxpayer-compliance program and provide for obtaining the information for such analysis.

The District's Department of Finance and Revenue agreed that more emphasis on program analysis and evalution was needed. As a result, internal evaluation of department programs was transferred to the Office of the Director of Finance and Revenue and the information and resource requirements for analyzing and evaluating voluntary taxpayer compliance are being studied. Mayor Washington said that he will support the Department's efforts in this area.

The Department of Finance and Revenue recognizes that administration of the District's self-assessed taxes might be improved by:

-- Establishing computerized master (historical) tax files.

-- Improving coordination of compliance activities for the personal property tax and other business taxes.

-- Closer monitoring of tax exemptions.

The Mayor indicated that the District will consider the improvements needed in these areas.

CHAPTER 1
INTRODUCTION

In fiscal year 1975, the District of Columbia collected about $396 million from self-assessed taxes -- those for which taxpayers filed returns and established the amounts due. Self-assessed taxes include sales and gross receipts, income (individual, corporation franchise, and unincorporated business franchise), and inheritance and estate taxes.

Tax administration is based on the premise that individuals and businesses will (1) voluntarily follow the laws, regulations, and related assessment instructions, (2) file proper tax returns, and (3) pay taxes due.

To encourage individuals and businesses to pay their taxes, the District, like the Federal and State governments, (1) communicates its tax law requirements to taxpayers, (2) helps them understand the rules, (3) audits tax returns, (4) identifies and follows up on nonfilers, and (5) collects delinquent taxes.

The Department of Finance and Revenue (DFR) administers the tax laws. DFR's authorized positions and fund allotments for fiscal year 1975 were as follows:

Category	Positions	Allotment
Administration	22	$ 510,800
Programs and data systems	67	1,127,400
Assessment administration	147	2,178,500
Tax administration	195	2,973,300
Treasury	100	1,513,700
TOTAL	531	$8,303,700

DFR's Office of Tax Administration is principally responsible for assuring compliance with the tax laws. The Tax Compliance and Registration Division (TCRD) informs and assists taxpayers and discovers and follows up on nonfilers. The Tax Audit and Liability Division (TALD) audits tax returns and supplements TCRD's information and assistance effort.

Until fiscal year 1975, the District Treasury Office enforced payment of delinquent taxes (excluding real estate). The Office of Tax Administration now does this. Prosecution of tax delinquents is handled by Corporation Counsel.

In fiscal year 1975, internal evaluation of the tax programs was transferred from the Office of Program and Data Systems to the Director of DRF.

SCOPE OF REVIEW

We examined the District's means of promoting self-assessment and voluntary payment of taxes and discussed compliance programs with Internal Revenue Service (IRS) tax officials from several States.

We reviewed the District's policies, procedures, regulations, and available statistics on the administration of self-assessed taxes. The District performed certain compliance tests for us.

Our review was limited, since we were denied access to tax returns and related tax administration records because of D. C. Code 47-1564 (income and franchise taxes) and 47-2615 (sales tax). These statutes prohibit the District from divulging the data contained in a specific tax teturn or related records, except to an official of the District with a right to such data or the proper officer of the United States or any State.

The District's Corporation Counsel has ruled that the "proper officer of the United States" referred to in the code is one that administers Federal tax laws -- the IRS Commissioner or his authorized representatives.

Under this ruling we could not verify the District's information or review any compliance activities involving detailed tax information.

CHAPTER 2

NEED FOR SYSTEMATIC ANALYSIS AND EVALUATION OF COMPLIANCE PROGRAM RESULTS

The District has an active program for administering self-assessed taxes; however, more could be done to improve voluntary taxpayer compliance. DFR had not established a system to analyze the voluntary taxpayer compliance program and lacked adequate information for such analysis. Therefore, DRF did not have data on the reasons individuals and businesses are not voluntarily complying with the tax laws sufficient to identify problems needing attention.

INFORMATION NOT AVAILABLE FOR EFFECTIVE ANALYSIS AND EVALUATION

The following sections discuss the data needed for effective analysis and evaluation of taxpayer assistance, identification of and followup on nonfilers, audit of tax returns, and collection of delinguent taxes.

Taxpayer assistance

Voluntary compliance with self-assessed taxes requires adequate information. In addition to routinely distributing tax forms and instructions for completing them, DFR's information program in fiscal year 1974 consisted of

- -- preparing and distributing information which communications and news media could use to publicize the individual income tax and the availability of tax assistance from the District government,
- -- providing instructions and training to selected government and industry employees to enable them to help their fellow employees prepare tax returns,
- -- participating in public affairs broadcasts to present individual income tax information,
- -- discussing tax matters before trade associations and professional groups, and
- -- ruling on technical interpretations of tax laws.

TCRD, aided periodically by TALD, provides additional assistance and information requested by taxpayers. In fiscal year 1974, TCRD received about 136,000 requests for assistance and infomration by telephone call, personal visits, and correspondence. About 15 staff-years were used in answering these requests.

Requests for individual income tax assistance and information accounted for more than 100,000 of these contacts -- about 1 contact for every three individual income tax returns filed. The remainder were from

businesses. Data on these taxpayers' requests for help was not documented to provide a basis for meaningful analysis of how many taxpayers of what status needed what kinds of help.

During the filing period for tax year 1974, IRS had a program to accumulate data on telephone assistance requests to identify the 25 questions most frequently asked by taxpayers. IRS believed this information would provide a basis for improving its taxpayer assistance efforts, which, in turn, should enhance voluntary compliance by taxpayers. This is an example of the data collection needed in the District's taxpayer assistance program.

A good tax information program also needs data from the District's other compliance activities. (See p. 17.) For example, audits of tax returns could reveal specific needs for clarified instructions or general publicity. Therefore, these activities must be systematically analyzed and evaluated before an effective information program to improve voluntary compliance is possible.

Identification of and followup on nonfilers

TCRD identifies and follows up on individuals and businesses that do not file tax returns. About 33 staff-years were used in fiscal year 1974 to followup on nonfilers; 8 of these dealt with individual income tax and 25 with business taxes.

These are the results of TCRD's followup for fiscal year 1974:

Type of case	Cases followed up	Total assessed
		(millions)
Individuals	8,875	$ 2.3
Businesses	a/41,923	12.8
Total	50,798	$15.1

a/ This is not the number of businesses involved. Businesses are required to file returns and pay taxes montly, quarterly, or annually depending on the amount of tax owned. A delinquency occurs when a required return is not received on time. It would be possible for a large firm which was required to file monthly returns to be delinquent several times during the year.

Individual income tax

Recommendations to increase the effectiveness of the District's program to identify and follow up on individual income tax nonfilers were included in our report to the Congress entitled "What is Being Done About Individuals Who Fail to File a District Income Tax Return?" (GGD-75-8, Mar. 20, 1975). In this report, we took the position that all identified potential nonfilers must be contacted and made to pay any income taxes due. Such action should enhance future voluntary compliance with income tax filing and income reporting requirements.

The causes for nonfiling must be identified and analyzed to find out how to reduce future nonfilings. DFR did not have quantitative data on the reasons individuals failed to file returns; therefore, DFR management did not have adequate information to address the nonfiling problem in the most effective manner.

At our request, TCRD officials experienced with following up on nonfilers listed the reasons for nonfiling in what they believed to be the order of frequency, from most to least frequent, as follows. The nonfiler:

1. Worked outside the District (usually Maryland or Virginia) and the employer did not withhold District income tax; the nonfiler did not understand procedures requiring the filing of a declaration.
2. Did not realize a tax return (D-40) should have been filed at the end of the year, because District tax was withheld or a declaration was filed.
3. Was domiciled (maintaining permanent legal residence) in the District but living outside of the District and did not understand the meaning of the term domicile.
4. Did not know there was a District income tax.
5. Was employed by the U.S. legislative branch and thus thought he or whe was exempt.
6. Was employed as a Presidential appointee and thought he or she was exempt, but was liable because of domicile in the District or lack of Senate confirmation.
7. Entered military service from the District and thought he or she was exempted by the Solider's and Sailors' Civil Relief Act.
8. Thought the return had been filed by an accountant or attorney.
9. Believed retirement pay or disability pay was exempt.
10. Was the spouse of a Presidential appointee or of an elected officer's employer and believed himself or herself to also be exempt.

The list represents the kind of information that should be systematically derived from the results of the followups on nonfilers and then analyzed and evaluated to develop procedures to reduce nonfiling.

Business taxes

The business master index file is used by DFR to discover whether businesses compiled with tax filing requirements and to register all businesses in the District for tax purposes. Businesses are indexed through DFR registration procedures. In Fiscal year 1974, about 35,000 businesses were registered.

According to DFR procedures, businesses are told when registering of taxes owed and tax filing requirements. Tax returns filed are matched against registration records, and registered businesses that have not filed returns or paid taxes due are followed up on. To facilitate this process, DFR is computerizing its master index file.

DFR relies on information from inside and outside the District government to identify firms doing business in the District without having registered for sales, withholding, or franchise taxes. The principal sources of such information are:

1. The Department of Economic Development for occupancy permits issued to new businesses.
2. The Department of General Services for contracts awarded for building demolition and construction.
3. The Armory Board for scheduled events to be held in the D.C. Armory.
4. Dodge Reports monthly publications for construction contracts awarded in the District.
5. Recorder of Deeds for firms incorporating in the District.
6. The yellow pages of the telephone directory.

In fiscal year 1974, TCRD discovered 559 businesses that were not registered with the District for taxes. These delinguencies are included in the 41,923 cases shown on page 4.

According to DFR's records, considerable backlogs exist in following up on business tax delinquents. The backlogs as of June 30 of fiscal years 1974 and 1975 were 4,053 and 11,440 cases, respectively. DFR had projected that the rate of tax delinquency and delinquent case backlogs would increase, due in part to

-- increased tax rates inducing the chronic delinquent to avoid filing and/or paying until compelled to do so and

-- staffing limitations making it difficult to deal with increasing delinquents.

DFR did not have information compiled on the reasons businesses became delinquent. Information on the problems businesses have in complying with filing requirements should help DFR find ways to improve the situation.

Audit of tax returns

TALD audits self-assessments by individuals and businesses. In a tax program which relies essentially on voluntary compliance with tax laws, auditing of tax returns can affect taxpayer's preparation of returns in two ways: helping to deter willful inclusion of erroneous information on tax returns and providing tax administrators with useful data on taxpayers' problems with understanding instructions and preparing their returns.

TALD's audits attempt to achieve equity, broad coverage of all tax areas, and the greatest additional revenue. Returns audited, resources applied, and added reveune over the three fiscal years ended June 30, 1974, are shown below for each type of tax.

	FY 1972	FY 1973	FY 1974
Individual income:			
Audited returns	11,322	12,223	15,214
Audit revenue	$1,144,214	$1,226,617	$1,741,028
Audit hours	31,086	30,689	31,747
Fiduciary:			
Audited returns	98	63	143
Audit revenue	4,860	22,806	5,579
Audit hours	140	79	231
Witholding:			
Audited returns	440	417	477
Audit revenue	82,448	20,031	28,554
Audit hours	949	840	938
Corporation:			
Audited returns	826	1,087	868
Audit revenue	198,808	614,910	684,647
Audit hours	3,192	4,086	3,694
Unincorporated business:			
Audited returns	353	410	347
Audit revenue	36,486	77,844	133,882
Audit hours	1,111	1,307	1,358
Sales and use:			
Audited returns	437	340	438
Audit revenue	836,298	945,276	1,175,892
Audit hours	21,353	15,268	19,005
Motor fuel:			
Audited returns	1	1	1
Audit revenue	2,022	-	19,696
Audit hours	83	74	134
Alcoholic beverage:			
Audited returns	60	52	58
Audit revenue	354	-	1,970
Audit hours	2,273	1,558	1,927
Cigarette:			
Audited returns	4	4	5
Audit revenue	4,304	3,338	1,094
Audit hours	826	504	846
Inheritance and estate:			
Audited returns	3,219	2,979	2,980
Audit revenue	2,750,143	1,635,154	1,468,930
Audit hours	7,165	6,818	7,079
Total:			
Audited returns	$ 16,760	$ 17,576	$ 20,533
Audit revenue	$5,059,937	$4,545,976	$5,261,272
Audit hours	$ 68,178	$ 61,223	$ 66,959

The preceding schedule of general audit statistics is not detailed enough for meaningful evaluation, but it raises important questions which managers should answer by collectiong more details. For example, over the 3-year period shown, audit revenue from individual income, corporation, and unincorporated business taxes steadily increased without a large increase in audit hours applied. The question posed to the manager is: "Why?" One possible explanation might be that inadequate steps were taken to correct the causes of audit findings in 1972 and/or 1973, and they were recurring.

DFR had no procedures for compiling audit results in the detail required to effectively evaluate findings. For example, one problem found by audit personnel in individual income tax returns involved differences in certain provisions of District and Federal income tax laws which often caused individuals to follow Federal rules instead of the District's. DFR had compiled no data on such erroneous reporting, such as items for which Federal rules were most often followed. Such data could help to determine corrective action needed and subsequently to measure the effect of that action.

Also, DFR uses various criteria for selecting returns to be audited. Data on results produced using each of these criteria was not available. Such information could help DFR evaluate the criteria and insure that auditing is increasingly directed toward obtaining voluntary taxpayer compliance and concentrating on areas of highest revenue productivity.

Because of our suggestions, DFR said it is now collecting data on audit results in more detail.

Collection of delinquent taxes

The collection of unpaid taxes is the ultimate enforcement action taken to equitably administer the District's tax system. It is the "teeth" of the system.

The Delinquent Collections Division collects all delinquent taxes except real estate. DFR can refer cases to the Corporation Counsel for prosecution when it believes such action is warranted. In fiscal year 1974, DFR spent about 31 staff-years to enforce collection of District taxes. Corporation Counsel assigned three attorneys to prosecute tax delinquents.

The following schedules show the delinquent collection actions completed during fiscal years 1972, 1973, and 1974, and the delinquent tax accounted receivable at the end of each year.

Delinquent Collections Actions Completed

Action	Fiscal Year 1972 Number	1972 Amount	1973 Number	1973 Amount	1974 Number	1974 Amount
Collected by DFR (note a)	13,654	$4,842,279	18,060	$5,753,783	21,136	$6,618,851
Written off (note b)	5,976	623,936	8.147	816,774	7,542	795,797
Collected from prose-cutions (note c)	302	613,264	191	963,083	90	848,431

a/ Included in DFR collections are delinquent taxes collected by the billings process without revenue officer action. Before referring delinquencies to revenue officers, the District will bill individuals twice and businesses once. The amounts of collections resulting from these billings were not available separately from DFR.

b/ Accounts are written off after a determination by the District that further administrative or legal effort to collect taxes owed would not be productive. Delinquent taxpayers are not forgiven their tax debts, however.

c/ Collections from criminal proceedings only. Collections from civil proceedings were not available.

Delinquent Tax Accounts Receivable

Tax	June 30, 1972 Number	June 30, 1972 Amount	June 30, 1973 Number	June 30, 1973 Amount	June 30, 1974 Number	June 30, 1974 Amount
Individual	39,569	$3,308,097	44,955	$4,529,447	42,510	$5,989,018
Personal property	3,307	854,070	1,782	589,455	2,072	570,020
Sales	5,634	1,910,348	8,388	2,618,550	8,084	3,075,882
Employee withholding	3,324	672,749	4,132	889,049	4,810	1,277,833
Unicorporated	1,149	190,670	1,396	246,709	2,667	300,833
Corporation	956	304,575	1,276	382,590	2,515	520,807
Inheritance	857	1,599,910	994	1,219,577	1,002	1,915,131
Estate	22	376,843	17	162,358	8	148,807
Recordation	3	3,198	10	9,996	21	15,181
Others	32	3,573	1	123	1	123
TOTAL	54,853	$9,724,033	62,951	$[illegible],647,854	63,690	$13,813,635

Note: Comparison of the above yearend balances with collections shown on the preceding page would be misleading because balances include penalities and interest computed to the date the delinquencies were established, whereas collections included penalities and interest to dates of collection.

When delinquent tax accounts are referred to revenue officers, their actions include: the use of dunning notices; telephone or field contacts with the delinquents; legal attachment of salaries, wages, bank accounts, and property; and referral to Corporation Counsel for prosecution. At his discretion, a revenue officer may taken these actions successively or selectively, depending on his evaluation of the individual's or business' tax paying record.

The principal problem indicated by our review of delinquent tax collection activity is the backlog of cases. The collection effort is relatively successful once undertaken; for every dollar of delinquent tax written off in fiscal year 1974, $9 were collected. Earlier contact could result in fewer writeoffs and prompter collection of taxes. Many writeoffs occur because by the time revenue officers initiate action the delinquent cannot be located or has no remaining assets.

Actions have been taken recently which should help to collect delinquent taxes, reduce backlogs of cases, and accelerate the collection process.

In April 1974, the Office of Municipal Audit and Inspection (OMAI) reported to the Mayor that for tax year 1972 about $1.1 million in income tax was refunded to individuals who owed the District $810,000 in taxes for prior years. Subsequently, DFR established a program to offset taxes owed by individuals against any refunds they claimed. In fiscal year 1974, $768,000 was collected on 8,453 delinquent cases as a result of this program.

We also noted that, according to DFR procedures, when TCRD revenue officers who identify and follow up on nonfilers could not collect taxes, they turned cases over for enforcement to revenue officers in the Delinquent Collections Division, which was then part of the Treasury Office. This duplicative handling of cases by revenue officers unnecessarily delayed the enforcement effort. We suggested that once a nonfiling case was assigned to a revenue officer for followup, that officer should take all enforcement steps necessary to collect the tax due.

In December 1974, DFR transferred the Delinquent Collections Division from the District Treasury to the Office of Tax Administration. This was done to better coordinate the delinquent discovery and collections activities until DFR can fully review the feasibility of combining the enforcement activities of all revenue officers.

Greater efficiency of delinquent tax collection may be possible, but detailed data on these efforts -- e.g., results of steps taken and measurement of particular collections problems -- is needed to adequately evaluate how improvements can be made.

SYSTEM FOR ANALYZING
COMPLIANCE PROGRAM NOT ESTABLISHED

In fiscal year 1969, a program and evaluation staff was established by DFR and placed under the Associate Director for Program and Data Systems. In fiscal year 1974, the staff assigned consisted of three management analysts, a management analyst trainee, and a forms technician.

Program evaluation was inherent in the development, coordination, and administration of the Department's program planning and reporting system. DFR stated the primary purposes of the system as follows:

-- To provide a systematic and uniform approach to planning and coordinating related Department activities.

-- To more accurately estimate and project program requirements.

-- To allocate resources.

-- To inform the Director of program plans, progress, and problems.

Program evaluation corresponds to the last of these purposes, and when performed effectively it would provide information needed to accomplish the first three purposes.

To increase voluntary taxpayer compliance with self-assessed taxes, the reporting system should have been informing top management of progress made and problems encountered. It was not doing so because DFR had not established a system to analyze program results.

DFR officials said that systematic analysis of compliance activities had not been established because adequate resources were unavailable. The evaluation staff that was available concerned itself largely with other aspects of the reporting system -- for example, developing periodic reports.

A factor contributing to the lack of emphasis on analysis and evaluation of the compliance program could have been the assignment of the evaluation staff to the Office of Programs and Data Systems, which is concerned with providing services to operating groups. With the thorough support of top management, program analysis and evaluation can function in any part of an organization, but it is most successful when -- as is the case with internal audit groups -- it is placed in an organization where its independence from operations is greater.

The Director, DFR, accepted our suggestion that program evaluation be moved to his office and, in December 1974, issued a departmental reorganization order to accomplish the transfer. The Director informed us that DFR was reviewing the existing management information system, evaluating existing data and the need for new data, and deciding whether management would need additional resources to improve information to use in planning, managing, and evaluating the program.

The District's internal auditors also should give more attention to reviewing tax administration. OMAI's audits of DFR activities have been principally in traditional internal audit areas, such as reviewing controls over cash receipts and disbursements. While these audits are necessary, OMAI should increase the scope of its work in DFR to include regularly scheduled broad reviews of tax administration. The Director of OMAI informed us that he will include such reviews in his future plans.

The newly established District of Columbia Auditor can provide additional audit coverage of tax administration. Since his reports can be made public, they could be an important source of information on the administration of District taxes. The District of Columbia Auditor should consider the adequacy of work done by OMAI when setting the scope of his reviews.

Conclusions

The concepts of self-assessment and voluntary payment of taxes are fundamental to a successful District tax program. The District collected about $396 million in fiscal year 1975 from self-assessed taxes. The voluntary compliance with tax laws achieved in the District has been promoted by an active program of taxpayer assistance, identification of and followup on nonfilers, audit of tax returns, and collection of delinquent taxes. However, more could be done.

Systematic analysis and evaluation of the program could enable the District to achieve even greater taxpayer compliance with self-assessment rules, resulting in additional tax revenues. DFR had not established a system to analyze the compliance program, and inadequate information was compiled for such analysis.

DFR has recognized that it should place more emphasis on program evaluations. Program evaluation was transferred to the office of the Director of Finance and Revenue, which is studying what information and resources are needed for effective analysis and evaluation of the compliance program. This is the necessary first step to establishing a management information system that will enable DFR to analyze and evaluate the program from year to year.

Recommendations

The Mayor should:

-- Insure that DFR (1) Completes its review of the information and resource requirements for systematic analysis and evaluation of the tax compliance program as soon as possible and (2) takes appropriate action to establish a management information system that will best serve the Department in planning its compliance activities.

-- Provide the necessary resources to support DFR's efforts to improve the voluntary taxpayer compliance program. Such efforts can help insure maximum revenue for District services and equitable distribution of the tax burden among District residents.

Mayor's Comments

The Mayor said that although accumulating additional detailed statistics will take time away from revenue-collecting staff, additional useful knowledge about taxpayer compliance problems might result. He said that projects have already been initiated to accumulate more detailed statistics on tax audits and on the questions most frequently asked by taxpayers, and other projects are planned by DFR.

The Mayor said the District government will support the Department of Finance and Revenue's programs to improve voluntary compliance with tax laws.

We hope DFR can devise ways to develop the data it needs without placing undue administrative demands on personnel such as revenue officers engaged in compliance activities. Every possibility for using computers and/or support personnel for this task should be considered.

The measure of success in a self-assessment tax system is the extent of voluntary participation obtained from the taxpaying public. All tax compliance activities have as their objective increased voluntary taxpayer participation. An individual activity, such as following up on nonfilers, could be producing revenue year after year, but if it does not adequately inform management on program results, improving the program becomes difficult.

In summary, program analysis and evaluation is not an option of management; it is necessary to help DFR apply resources most effectively to further voluntary compliance with tax laws.

CHAPTER 3

SUGGESTIONS FOR IMPROVING TAX ADMINISTRATION

We noted some other areas in which the District's administration of self-assessed taxes could be improved. DFR officials recognzied the need for the improvements and said that for most of them DFR had insufficient resources to further develop their potential.

ESTABLISHING COMPUTERIZED MASTER TAX FILES

The compliance program for self-assessed taxes could benefit if DFR established computerized master (historical) tax files on its taxpyaers. A master file is a composite record of information, obtained from tax returns filed over the years by a taxpayer, including the amounts of any unpaid taxes.

The most widely known master tax files are at IRS. All tax data and related information pertaining to individual and business taxpayers are placed in the files, which thus contain a continuously updated record of each taxpayer's account. All settlements with taxpayers are made by computer processing of the master file accounts. The data is used for accounting records and for issuing refund checks, bills, or notices, answering inquiries; classifying returns for audit; preparing reports; and other IRS processing and enforcement activities.

As mentioned on page 6, DFR is computerizing its master files for businesses. This project has been in process for several years and progress is slow. DFR officials said that resources have not been available to speed its completion. In our opinion, this project deserves more emphasis.

The District should benefit from similar files for individual income taxes. With such a file, for example, DFR's recent program of subtracting delinquent taxes from refund claims (see page 12) could be accomplished routinely as returns are processed, rather than by specially matching refund claims against accounts receivable. The IRS master file system can also subtract business taxes due from persons who claim refunds on their individual income tax returns.

Other benefits that the District would derive from computerized master files for individual income taxes include a current tax return mailout listing and more convenient retrieval of information needed for audit and other compliance actions.

	Number	Percentage of total
Registered for all applicable taxes	100	86
Unregistered for one or more taxes	13	11
Claimed exemption from franchise tax but had no application on file	3	3
Total	116	100

Of the 13 businesses which were not registered for one or more taxes:

-- None had paid the taxes in question.

-- 9 had moved from the addresses shown in the personal property tax records and could not be located.

-- Three were unincorporated businesses and claimed they did not gross $5,000 (minimum for filing).

-- 1 appeared liable for tax and was so advised.

Personal property tax records indicated that most of the 13 businesses were small firms which had been in operation from 3 to 8 years. During this time, most had paid personal peroperty tax, but no other taxes, to the District.

The procedures for identifying new businesses and obtaining their compliance with personal property tax did not include taking steps to make sure that the businesses also registered for other taxes. Similarly, businesses that registered for sales, withholding, or franchise taxes were not made specifically aware of personal property tax requirements, because the registration form does not include personal property information. Better coordinating personal property tax and other business tax collection could improve the overall compliance program for businesses and increase revenue to the District.

Mayor's comments

"The groups responsible for obtaining compliance with the personal property tax and the other business taxes have coordinated their activities on an informal basis in the past. A study is currently in process to ascertain the most efficient and effective way of formalizing and expanding this coordination."

CLOSER MONITORING OF TAX EXEMPT ORGANIZATIONS

The District does not appear to have an adequate program for monitoring exemptions from franchise and sales taxes. DFR was not obtaining periodic reports from exempted organizations to insure their continued exemption; it provided very little guidance to such organizations on what portion of their operations had to be in the District to exempt them from District tax.

As of November 1, 1974, DFR records showed 1,472 organizations exempted from District franchise taxes and 3,433 organizations exempted from sales taxes. DFR did not have data on revenue foregone or the scope of these organizations' exempted operations.

The basic criteria for all District tax exemptions are that the organizations be organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes and that no part of the net earnings benefit any private shareholder or individual. These are also the criteria under which Federal income tax exemption is granted, pursuant to section 501 (c)(3) of the Internal Revenue Code. In addition to these criteria, the District's Income and Franchise Tax Act of 1947 provided that such organizations must dispense their benefits "to a substantial extent" within the District.

The District does not explain specifically to organizations applying for exemption from income and franchise tax what it considers "a substantial extent" to be. District personnel responsible for reviewing exemption applications said that the word "substantial" indicates that judgement is involved and in reviewing an application, they consider the amount of money the organization spend or the services it provides in the District. If the organization's activities benefit the District to a recognizable extent, it usually is regarded as meeting the criteria for exemption.

The District does not receive current information on the status of organizations granted exemptions from either the franchise or sales taxes. The DFR personnel who administer the exemption program said that organizations exempted from income and franchise taxes usually do not furnish the annual reports the District asks for in the letter notifying them of the approval of their applications. In the case of sales exemptions, no periodic reporting requirements exist, even though sales tax certificates have no expiration date and could conceivably be used long after the organization ceased to qualify for exemption. DFR officials said they had no specific procedures for monitoring exempt organizations' operations.

Unless the District keeps current information on the operations of exempt organizations, the District could be put at a disadvantage. For example, charitable foundations and trusts which generate income in the District through investments or other profitmaking ventures might redistribute their charitable benefits to make their exemption from District taxes disproportionate to the benefits distributed in the District.

New York State recognizes the desirablility of keeping the contributions of exempt organizations flowing to the State and has established an active program for supervising charitable trusts and foundations. Under New York's program, such organizations must report annually in order to keep their exempt status. To offset the expense of State supervision, the organizations must pay filing fees based on their net worths.

To measure the need for improved supervision of the District's exempted organizations, we devised certain tests which were performed with the assistance of DFR and OMAI. Generally, our tests indicated that:

-- Organizations are operating in the District under the presumption that they are exempt from income and franchise tax.

-- Other organizations which the District has exempted from franchise and income tax apparently have not been exempted from Federal tax or have had their Federal exemptions terminated.

-- Many organizations no longer operating in the District are on record in its active exemption files.

The District needs to review its exemption program with a view toward developing ways to strengthen its supervision of tax-exempt organizations.

The District should define the phrase "to a substantial extent," either from the legislative history surrounding its inclusion in the D. C. Code or by supplemental legislation. Such action would help exempt organizations plan their District activities to maintain their exempt status and provide maximum benefits to the District's residents from the tax exemption program.

Also, the District should consider establishing application filing fees in order to help offset the costs of administering the program.

Mayor's Comments

"The Director of the Department of Finance and Revenue acknowledges that more attention could be devoted to the area of tax exempt organizations. He believes, however, that any substantial expanded effort is not practical at this time because of limited resources and higher priority programs. Further consideration will be given to expanding our efforts in this area in the future."

TAX ON RESTAURANT
CARRYOUT SALES INCREASED

We also noted a sales tax compliance problem at restaurants which have both eat-in and carryout sales. Food purchases made ostensibly for carryout and taxes at 2 percent were being eaten in restaurant facilities and therefore should have been taxed at 6 percent. The problem was solved, however, by the City Council's subsequent passage of the District of Columbia Revenue Act of 1975 which taxes all food or drink sold by restaurants and similar establishments at 6 percent.

CONCLUSIONS

The District has recognized that the above matters deserve additional attention. To insure that needed changes are made, a definite plan for reviewing each of the areas should be established, including a schedule for completing the reviews and taking appropriate actions.

THE DISTRICT OF COLUMBIA

Walter E. Washington
Mayor

WASHINGTON, D. C. 20004

Mr. Victor L. Lowe, Director
General Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

Thank you for the opportunity to comment on your draft report concerning a review of the administration of the District's self-assessed taxes.

Your principal recommendation is that the District should develop a more formal system for identifying, analyzing, and documenting various problems with voluntary compliance in order to better assure that appropriate action is taken to further reduce such problems. To accomplish this, GAO suggests compiling certain additional statistics.

Although the accumulation of additional detailed statistics will infringe on the revenue production of our estremely limited staff resources we nevertheless agree that it is possible that additional useful knowledge about taxpayer compliance problems might result. Therefore, more detailed statistics will be developed where reasonably feasible.

As you know, numerous actions have been and continue to be taken to improve voluntary compliance with the District's tax laws. Projects have already been initiated to accumulate more detailed statistics on tax audits and on the questions most frequently asked by taxpayers. The Director of the Department of Finance and Revenue has advised me that his current program plan contains more specific projects directed toward improving voluntary compliance. The District Government will support the Director's programs for improving the effectiveness of activities conducted to improve voluntary compliance with our tax laws.

The draft report discusses four additional matters and contains recommendations that (1) the Director of the Department of Finance and Revenue evaluate each area and initiate the actions he deems appropriate and (2) the District Government take such legislative and budgetary steps as may be warranted based on the Director's evaluations. My comments on each of these matters follow.

Establish master (historical) computer tax file for the individual income tax and expedite the completion of the computerized master business tax system.

We are in agreement with your general observations on this subject area. As you know, we have developed consistent with available resources limited capacity in the business tax area. Furthermore, the fiscal year 1976 budget submitted to the Congress contains a request for funds to initiate a study and analysis of further needed improvements in the Department's computer utilization.

Better coordinate compliance activities for personal property tax and other business taxes.

The groups responsible for obtaining compliance with the personal property tax and the other business taxes have coordinated their activities on an informal basis in the past. A study is currently in process to ascertain the most efficient and effective way of formalizing and expanding this coordination.

The Director of the Department of Finance and Revenue has advised me that he will let me know if implementation of improved coordination will require any assistance or action by my office.

Monitor tax exempt organizations more closely.

The Director of the Department of Finance and Revenue acknowledges that more attention could be devoted to the area of tax exempt organizations. He believes, however, that any substantial expanded effort is not practical at this time because of limited resources and higher priority programs. Further consideration will be given to expanding our efforts in this area in the future.

Revise the tax on restaurant carry-out sales.

The problems referred to in your report regarding restaurant carry-out sales have been solved legislatively by provisions contained in the Revenue Act of 1975. Specifically, food (groceries) previously taxed at a 2% rate has been exempted from the sales tax. The only food item which is currently in the sales tax base at the 2% rate is that sold in vending machines. Accordingly, the sales tax rate on prepared food (restaurant meals, etc.) is the same (6%) whether the food or drink is actually consumed on or off the premises where sold.

We appreciate your suggestions. We know that there is always room for improvement in any program and the District is constantly seeking ways of making such improvements. Moreover, I was pleased to note that the findings in your report were in the nature of constructive suggestions for essentially "fine-tuning" our existing tax administrative operations.

Again, I thank you for allowing me to review the report in its draft form and I hope that these comments will be helpful to you in finalizing the report.

Sincerely yours,

Walter E. Washington
Mayor

APPENDIX B

REPORT TO THE CONGRESS

By the Comptroller General of the United States

Conditions in Local Jails Remain Inadequate Despite Federal Funding for Improvements

Law Enforcement Assistance Administration

Department of Justice

Standards for the adequacy of physical conditions and services to be provide in local jails are needed in the United States. The standards should be developed jointly by the States and the Law Enforcement Assistance Administration

This is shown by GAO's findings that Law Enforcement Assistance Administration funds did not result in adequate improvement of overall jail conditions and by recent Federal court decisions mandating that some localities improve their local jails or close them.

This report raises questions concerning whether Law Enforcement Assistance Administration funds should be spent to improve local jails that remain inadequate--even after Federal funds are spent.

GGD-76-36 April 5, 1976

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-171019

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the less than satisfactory results achieved when Law Enforcement Assistance Administration (LEAA) funds were applied to the renovation or construction of local jails. In 1972 there were over 3,900 local jails in this country holding about 142,000 inmates. Many of these jails were built before 1900 and were in such condition that Federal courts were ruling that individual jails had to be improved or closed.

We did the review to determine how LEAA funds were being applied to the problem and whether the approach was producing acceptable jails. This report discusses steps that LEAA could take to better assure that local jails, when improved with Federal funds, will meet acceptable jail standards.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Attorney General; and the Administrator, Law Enforcement Assistance Administration.

Comptroller General
of the United States

CONTENTS

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	The Federal Government involvement in criminal justice	1
2	LOCAL JAILS: PROBLEMS, PROPOSED SOLUTIONS, AND DIRECTION OF EFFORT	5
	Problems in attaining acceptable jails	5
	Proposed solutions	7
	Direction of effort	9
3	NEED TO IMPROVE OVERALL PHYSICAL CONDITIONS OF LOCAL JAILS	17
	Desirable characteristics for local jails	17
	Inadequate conditions	18
	Conclusion	23
4	NEED FOR ASSISTANCE TO INMATES IN LOCAL JAILS	25
	Characteristics of inmates in jails visited	26
	Availability of services	28
	Available community resources	29
	Conclusion	32
5	OVERALL CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS	33
	Conclusions	33
	Recommendations to the Attorney General	34
	Agency Comments	34
	Recommendation to the Congress	35
6	SCOPE OF REVIEW	37
APPENDIX		39
I	Analysis of legal standards for maintenance and services required to be provided prisoners in local jails	39
II	Purpose of local jail projects reviewed	43
III	Comparison of conditions in jails in relation to desirable characteristics outlined by criminal justice experts	49
IV	Inmate demographic data for local jails	53
V	Assistance services available at selected jails	57

APPENDIX		Page
VI	Letter dated February 9, 1976, from Assistant Attorney General for Administration, Department of Justice	58
VII	Principal officials of the Department of Justice responsible for administering activities discussed in this report	62

ABREVIATIONS

GAO	General Accounting Office
LEAA	Law Enforcement Assistance Administration
SPA	State planning agency

CHAPTER 1

INTRODUCTION

In 1972 there were over 3,900 local jails in the country with about 142,000 inmates. About 75 percent of the jails were small, holding 20 or fewer inmates. National studies have shown that many local jails are in poor physical condition and do not provide adequate facilities and services to rehabilitate the offender.

Local jails (as distinguished from lockups) are authorized to hold persons for longer than 48 hours and, generally, house persons awaiting trial (pretrial) as well as persons sentenced to incarceration for a term of 1 year or less. Local jails are generally operated by local law enforcement agencies and represent the initial contact that persons have with the corrections system.

During the past decade the courts have found that some jail systems constitute "cruel and unusual punishment" in violation of the Constitution. The conditions found unacceptable by the courts have included both the physical conditions of the facilities and the lack of adequate programs or services available to the occupants. Details of several relevant Federal court decisions are summarized in appendix I.

This report discusses the conditions in 22 local jails in Ohio, Iowa, Louisiana, and Texas after Federal funding had been spent for construction and/or renovation and discusses the impact that Federal funding has had on improving the conditions for local jail occupants.

We reviewed jails of varying capacity to determine if some of the problems were solved more easily when handling larger populations. We also reviewed four State-operated institutions--three in Delaware and one in Rhode Island 1/--for comparison purposes. The capacity breakdown of the jails visited was:

1 to 50	14
51 to 150	8
151 and more	4

Chapter 6 discusses in detail the scope of our review.

THE FEDERAL GOVERNMENT INVOLVEMENT IN CRIMINAL JUSTICE

The Federal Government helps State and local governments improve their local jails primarily by providing funds through the Law Enforcement Assist-

---

1/The four Rhode Island facilities are discussed as one institution in this report because one warden administers all of them. These four facilities are in close proximity to each other though they are not within the enclosure.

ance Administration (LEAA). LEAA was established by the Omnibus Crime Control and Safe Streets Act of 1968, as amended (42 U.S.C. 3701). The act provides for State criminal justice planning agencies (SPAs), responsible to the Governors, to manage the funds provided by LEAA. Each SPA must develop a State plan to indicate how it will try to prevent or reduce crime and improve the criminal justice system. The SPA is to be assisted in preparing the State plan by regional planning units composed of representatives from law enforcement and criminal justice agencies, units of general local government, and public agencies. The plan, when approved by the LEAA regional administrator, is the basis for LEAA's grant to the State.

LEAA's Office of Regional Operations develops guidelines the States must follow when developing State plans and establishes the policies and procedures for LEAA regional offices to use when reviewing and approving State plans. Each LEAA regional office has designated a representative for each State in its region to provide assistance in developing and reviewing comprehensive annual plans. The regional office also provides technical assistance to the States when requested.

LEAA's legislation provides funds to be awarded to States and local governments for programs and projects to improve and strengthen law enforcement and criminal justice. These funds are referred to as action grants and are awarded as either in total to the SPAs which determine further distribution of the funds. Discretionary grants are awarded to specific groups on the basis of LEAA-approved applications in accordance with LEAA criteria, terms, and conditions.

Action grants are available under two major sections of LEAA's legislation--part C and part E. Part C was established in the original legislation, and part E was added in 1971 to supplement, not supplant, part C funds. The following describes the major features of the two parts of the Omnibus Crime Control and Safe Streets Act as of the 1973 amendments.

	Part C	Part E
Funds available to	All aspects of law enforcement and criminal justice	Correctional institutions, facilities, programs, and practices
Percent available for:		
Block grants	85	50
Discretionary grants	15	50
Minimum matching funds required (percent):		
Construction projects	50	10
Nonconstruction projects	10	10

	Part C	Part E
Matching funds will be	Money appropriated in the aggregate by the State or units of general local government or provided in the aggregate by a private non-profit organization	Money appropriated in the aggregate by the State or units of general local governments

For fiscal years 1969-74, LEAA was appropriated $2.6 billion, which included $347.7 million part E funds, to improve the criminal justice system. Block and discretionary grants to the States reviewed through fiscal year 1974 are summarized in the following table.

	Rhode Island	Delaware	Ohio	Iowa	Louisiana	Texas
	(000 omitted)					
Part C						
Block	$ 8,793	$5,143	$ 99,520	$26,343	$34,044	$104,315
Discretionary	1,638	2,525	21,003	2,070	7,232	19,382
Total	$10,431	$7,668	$120,523	$28,413	$41,276	$123,697
Part E						
Block	$ 860	$ 497	$ 9,652	$ 2,216	$ 3,300	$ 10,147
Discretionary	696	783	11,010	417	8,892	7,919
Total	$ 1,556	$1,280	$ 20,662	$ 2,633	$12,192	$ 18,066
Parts C and E						
Block	$ 9,653	$5,640	$109,172	$28,559	$37,344	$114,462
Discretionary	2,334	3,308	32,013	2,487	16,124	27,301
Total	$11,987	$8,948	$141,185	$31,046	$53,468	$141,763

Correction projects, including projects involving construction or renovation of local jails, are reported by the States under various categories. The following unverified date for jail construction or renovation projects from 1971 through 1974 was obtained from SPA records and may not reflect all projects. The projects reviewed were selected from this data. Information for 1969 and 1970 was not readily available at some locations.

Funds Provided for Construction and/or Renovation of Jails Fiscal Years 1971-74 (note a)

Funds	Ohio	Iowa	Louisiana	Texas	Ohio	Iowa	Louisiana	Texas
	(000 omitted)							
Part C:								
Block	$1,854	$ 809	$2,645	$1,733	2	3	9	2
Discretionary	2,921	-	200	-	15	-	3	-
Total	$4,775	$ 809	$2,845	$1,733	4	3	7	2
Part E:								
Block	$ 990	$ 250	$ 11	$ 996	10	12	-	10
Discretionary	550	280	6,100	270	5	67	69	3
Total	$1,540	$ 530	$6,111	$1,266	8	22	50	7
Parts C and E:								
Block	$2,844	$1,059	$2,656	$2,729	3	4	8	3
Discretionary	3,471	280	6,300	270	12	12	41	1
Total	$6,315	$1,339	$8,956	$2,999	5	5	18	2

a/No construction and/or renovation projects were awarded to the State institutions in Delaware or Rhode Island.

CHAPTER 2

LOCAL JAILS: PROBLEMS, PROPOSED SOLUTIONS, AND DIRECTION OF EFFORT

In the States visited, little has been done to improve overall conditions of local jails that were renovated. Moreover, neither the Law Enforcement Assistance Administration nor the State planning agencies has specific criteria as to what constituted an acceptable facility or minimum standards against which to evaluate a project for funding purposes. New facilities that had received LEAA funds for construction had not incorporated some general standards advocated by corrections experts but overall were in better condition than renovated jails. The States had not developed adequate general plans to overcome some of the pressing problems faced by jail administrators.

The need for jails will not be completely eliminated even if all communities avail themselves of such alternatives as pretrial release, halfway houses, probation, and parole, since there will always be some individuals who either are not willing to accept the constraints in community-based programs or would present too great a risk to public safety if placed in such a program. Therefore, LEAA and the States must develop a workable strategy to provide acceptable jail facilities and services for local communities in a manner that can be economically and humanely justified.

PROBLEMS IN ATTAINING ACCEPTABLE JAILS

The "1970 National Jail Census" 1/ stated that, of the 3,319 local jails which served counties or were located in municipalities of 25,000 or more, 86 percent provided no exercise or recreation facilities and almost 90 percent had no educational facilities. A followup survey 2/ to the "National Jail Census" indicated that rehabilitative programs were very limited. For example, about 80 percent of the jails provided no inmate counseling, remedial education, vocational training, or job placement. A report by the National Advisory Commission on Criminal Justice Standards and Goals 3/ also commented on the poor physical con-

---

1/ "1970 National Jail Census," Law Enforcement Assistance Administration, Department of Justice, Feb. 1971.

2/ "Survey of Inmates of Local Jails 1972: Advance Report," Law Enforcement Assistance Administration.

3/ "Corrections, "National Advisory Commission on Criminal Justice Standards and Goals, 1973.

ditions of jails and the lack of adequate services to those incarcerated.

These problems are still confronting many administrators throughout the Nation. Many jails need replacing as illustrated in the following comments from selected 1974 and 1975 comprehensive State plans.

--Many local jails are old, deteriorating, and unsafe and are located in areas too small in population and too short in resources to provide adequate correctional services.

--Inspection of facilities indicated a state of general deterioration compounded by other shortcomings, such as lack of fire extinguishers, lack of fire exits, and lack of operative fixtures -- toilets, lavatories, lighting, beds, mattresses, heating, windows, painted walls, and showers. A survey of basic services provided to the offender -- meals, exercise, and special custody -- revealed an alarming absence of these services as well as a lack of ability to segregate offenders by age, sex, type of offense, or other special custody needs.

--For the most part, the local facilities are general dirty, in need of paint and repair, poorly heated and ventilated, and sometimes fail to provide adequate security. As a whole, the county jails can best be described as "warehouses of human flesh" in which little or no rehabilitation efforts are made except for maintenance work.

--Many county jails and lockups are substandard. These facilities present health and safety hazards for both prisoners and staff, and many do not provide secure custody due to structural or equipment problems. In most county jails, work release is the only treatment program available.

--The majority of (the State's) jails are in such an advanced state of disrepair that the introduction of effective rehabilitation programs is impossible.

The length-of-stay for local jail inmates can vary from a few hours to several months, but transiency and rapid turnover characterize the jail population. In 20 locally operated jails visited, more than 70 percent of the inmates were incarcerated less than a week, many for alcohol or traffic related offenses. These offenders generally represent no danger and could be housed in minimum security facilities.

Local jails, however, also house persons awaiting trial or those sentenced for periods exceeding 6 months but generally less than 1 year. Although the number of these persons is low, they represent a much different challenge to the jail administrator. Some probably represent a danger to other inmates as well as to the community. Thus, the availability of maximum security arrangements becomes an issue in providing for the safety of other persons.

Deficiencies in the physical conditions of the jail may not represent a serious hazard to the health of inmates housed for short periods. However, the length-of-stay for some persons can be considerable, and deteriorated physical conditions can be detrimental to the physical well-being of such persons.

Services offered to inmates who will be incarcerated on the average less than a week must be nominal. However, such persons should be informed of services available in the community which may be beneficial to them. Offering assistance programs to persons incarcerated for a longer period would be feasible, but the cost of providing diverse beneficial programs to a few long-term inmates would probably be more than the community would approve.

None of the local jails visited were adequately coping with the needs of the diverse jail populations. The jails offered substantial security to jail personnel and the community but did not necessarily provide security to inmates. The physical conditions were often inadequate, and there were little or no rehabilitation services offered regardless of the length-of-stay or an inmate's need.

The money needed to provide adequate facilities and services to the jail population is probably much greater than local and State governments are willing to provide, especially when the taxpayers must authorize such expenditures. LEAA funding represents a limited source for the amount needed for the entire criminal justice system. In addition, for a grantee to be eligible for LEAA block grant funds, the Federal grant must be matched by State and/or local funds. Therefore, the use of LEAA funds for any particular aspect of criminal justice is affected by the extent to which the State and local governments desire to or are capable of addressing the problem.

PROPOSED SOLUTIONS

Criminal justice authorities have suggested solutions to the local jail problem, as described in the following sections.

Community-based corrections

Criminal justice authorities, including the 1967 President's Commission on Law Enforcement and Administration of Justice, the National Advisory Commission on Criminal Justice Standards and Goals, and the National Clearinghouse on Criminal Justice Planning and Architecture, believe that many persons incarcerated in local jails are not a danger to society and should not be in jail. According to the National Advisory Commission, offenders are perceived as stereotyped prisoners regardless of the seriousness of the offense. Authorities stress the need to develop a broad range of alternatives to incarceration of the nonviolent offender.

Along these lines, LEAA and States are directing their effort to

community-based corrections -- alternative measure emphasizing community participation to reduce involvement of offenders with the institutional aspect of corrections. Although this solution may reduce the jail's population, it does not solve the problem of how to provide an adequate facility to those considered ineligible for release.

State-operated local jails

In 1973 the National Advisory Commission on Criminal Justice Standards and Goals reported that the most striking inadequacy of jails is their "abominable" physical condition. Recognizing that few local communities can be expected to have sufficient resources to resolve the problem and provide appropriate services, the Commission recommended that States take over the operation and control of local institutions by 1982.

As of late 1972, only five States operated and controlled all of their correctional facilities -- Alaska, Connecticut, Delaware, Rhode Island, and Vermont. Each has only a few facilities. For example, Rhode Island has one location where it incarcerates all offenders, from pretrial to those with life sentences. Delaware has jails in 3 different communities and Connecticut has 11 correctional facilities.

Regional-operated jails

The regional jail concept has been suggested as a solution to the local jail problem for some time. The 1967 President's Commission on Law Enforcement and Administration of Justice and the 1973 National Advisory Comission of Criminal Justice Standards and Goals referred to this concept under which one jail would serve multicounty or city-county needs. With the consolidation of the jail population from several counties, the size of the operation could justify a better physical plant and some rehabilitation services.

In the four States with locally operated jails visited, SPA officials endorsed the regional concept; however, there does not appear to be widespread acceptance and implementation of this concept. These 4 States have 670 jails, and there are only 3 facilities serving multicounties. One of these facilities is a farm which has been in existence since 1930 and is limited to sentenced minimum security offenders. The other two 1/ have only recently expanded into multiparish facilities, and participation by surrounding parishes has not been fully realized. Moreover, within the geographical area served by these facilities, local jails are still heavily used, which directly conflicts with the concept of regional facilities. Parishes within one of the geographical areas often refuse to send inmates to the regional facility because of the cost of daily prisoner upkeep.

Barriers that are difficult to overcome confront efforts to regionalize jails. With emphasis on community-based corrections, criminal justice authorities believe the offender should be kept in the community into which he will be reintegrated. With a centralized facility serving

---

1/ Although these facilities are under one administrator, we have considered them as two facilities in this report because of their dissimilar characteristics.

multiple communities, keeping the individuals involved in their home communities would be difficult.

A second barrier acknowledged by criminal justice experts and referred to continually by law enforcement personnel contacted is a transportation problem. Under a regional system, the offenders would be subject to constant movement, particularly in the pretrial stage. The transporting of inmates would require security guards. Some of the local sheriffs indicated that they were operating with an inadequate staff; thus, because of the security required to transport offenders, a regional jail would further stretch their limited resources and would reduce the time available for actual enforcement activities.

Various officials contacted also did not consider the regional concept to be politically or economically expedient. The regional concept could remove the local jail from the county along with the jobs it involves. Moreover, under the regional jail concept, the participating counties would have to appropriate funds for capital and/or operating costs to support an operation outside the county.

Because of the limited use of regional jails, we did not attempt to evaluate the barriers to implementing this concept. We believe, however, that it would be appropriate for LEAA to study the concept to determine the validity of cited problems in establishing regional facilities and develop a plan to eliminate or overcome them.

One variation of the regional jail concept that appears to have more promise is the combination city-county jail. If a city and contiguous county determine that the offender population is large enough to justify combining the correctional facilities of only the two jurisdictions, the above-mentioned barriers do not appear to be major problems. LEAA might study the feasibility of encouraging appropriate cities and counties to consolidate their operations.

DIRECTION OF EFFORT

LEAA has stressed the need to improve community-based corrections and, in line with this emphasis, States have also given priority to them. While the priorities followed by the units of government appear consistent with the recommendations of criminal justice authorities, the need to improve unacceptable local jails which house thousands of inmates is not ruled out. Generally, LEAA has provided little guidance concerning the need to improve local jails.

LEAA guidance

No firm standards exist as to what physical conditions and rehabilitative services would be available in a jail after LEAA funds have been spent. In practice, LEAA funds have been used on facilities which continues to have undesirable characteristics, if judged against criteria developed by certain corrections experts.

The 1971 legislation establishing part E funds required LEAA to prescribe basic criteria for part E applicants and grantees. Part C of the authorizing legislation does not contain similar language. In anticipation of the 1971 legislation, LEAA contracted with the University of Illinois for the services of a group in the University's Department of Architecture now called the National Clearinghouse for Criminal Justice Planning and Architecture (Clearinghouse). Under this contract the Clearinghouse developed the publication "Guidelines for the Planning and Design of Regional and Community Correctional Centers for Adults" (Guidelines).

In 1972 LEAA issued a directive that made it mandatory for all construction or renovation projects to be reviewed by the Clearinghouse following the criteria established in the Guidelines before part E funds could be awarded. This directive did not require such review for part C-funded projects.

The Guidelines suggested general methods for housing offenders and offering them services -- they did not set minimum conditions to be met. Clearinghouse personnel told us that the Clearinghouse considers the Guidelines to be a flexible planning tool designed to accommodate each unique situation. They do not consider it mandatory for the project to provide all the physical conditions and rehabilitative programs in the Guidelines. If the Clearinghouse is unwilling favorably recommend the project proposed even after discussions with the prospective grantee, part E funds cannot be awarded unless the proper LEAA regional administrator approves the project.

LEAA has established procedures that require projects funded by part E to be reviewed by the Clearinghouse. However, neither LEAA nor the Clearinghouse have established procedures to insure that the Clearinghouse is advised of the funding status on projects it has reviewed or that recommendations are incorporated into the project.

In November 1974 LEAA's regulations limited the use of its discretionary funds to not more than 5 percent of part C funds and 30 percent of part E funds in any one year for constructing any type of facility. According to LEAA, this policy was adopted because of limited available funds and urgent needs in other areas.

The above restrictions do not apply to block funds. LEAA permits each State to set its own priority for using block funds. However, it has recommended that the States require local areas to contribute a greater percentage of the project's total cost than required by law in order to increase the total funds available to the criminal justice system.

SPA efforts

Under the LEAA concepts, each State determines its own priority needs and allocates its funds accordingly. In approving the State comprehensive plans, LEAA does require that the major segments of the criminal justice system -- police, courts, and corrections -- receive adequate consideration. However, a State decides the allocation of its funds to the various types of projects within each system. Funds for corrections can be allocated to various programs, such as pretrial release, halfway houses, probation,

parole, rehabilitative programs and renovations in large institutions, training of personnel, and local jail projects.

The need for improving local jails may not insure that such projects will receive higher funding priority than other correction projects whose need may be as great. The pattern of funding local jail construction or renovation projects varies among States. The following chart shows the number of jails and the number of improvement projects funded in 1971-74 for the States visited.

	Number of	
	Jails (note a)	Projects
Ohio	160	84
Iowa	92	19
Louisiana	96	11
Texas	322	28

a/ Number of jails as reported in the "1970 National Jail Census."

In Ohio, although there were numerous grants for small amounts, multiple small grants were awarded to the same grantee. Therefore, grants were awarded for facilities in only 48 of Ohio's 88 counties. In Louisiana and Texas, large amounts were granted for relatively few projects. Iowa awarded only a few grants -- some for new construction for combined city-county detention facilities and some for minor renovation of existing facilities.

The small number of jail projects in these States is not necessarily indicative of the number needing improvements. Officials of LEAA regional offices generally agreed that most local jails in their regions were in unacceptable condition. The following discusses the needs in each State and some reasons why LEAA assistance had not been provided to meet these needs.

Ohio

In referring to county jails, Ohio's 1974 Comprehensive Criminal Justice Plan stated:

> "Thus, many of these jails are hopelessly inadequate to provide even reasonable security and sanitation, let alone needed programmatic services."

In 1971 the Ohio Buckeye State Sheriff's Association surveyed the 88 county jails in Ohio. The survey showed that many of the jails were in poor condition and identified the 15 worst jails. Small project grants were awarded in 1972 and 1973 for renovating and repairing inadequate jails disclosed in the survey. Ohio has currently adopted a policy that new construction projects will generally be limited to facilities

that serve an area encompassing a population of 150,000 or more and is placing primary emphasis on community-based corrections. The 1974 State plan allocated only $156,000 for constructing or renovating adult facilities, down from more than $1.8 million in the 1972 plan.

Iowa

Iowa's 1974 Comprehensive Criminal Justice Plan state that many local jails were in satisfactory condition based on the Iowa Department of Social Services' inspections. However, the consensus of SPA and other State officials contacted was that local jails were in poor condition. Moreover, Iowa's 1973 plan stated that most county jail time is literally "dead time" with no programs aimed at rehabilitation or reintegration.

The SPA, however, has a policy directed toward community-based corrections rather than constructing and renovating local jails. Construction will, generally, be considered only if it involves a combined city-county law enforcement center. The SPA believes these centers have proven to be politically expedient while being cost effective and providing a "higher level" of services to the inmates. Four of the six projects reviewed were for this purpose. 1/ In each case, the facilities previously serving the locality had been closed or condemned.

The Iowa SPA in commenting on our report cited the following funding problem:

> "One other aspect which deserves mention is a requirement in the federal act as amended in 1973 which mandates the state to provide one half (1/2) of the local match. In a construction project such as the report deals with, the state share would therefore be 25% of the total cost. This stipulation has had the effect of curbing financial assistance in regard to this matter and as a consequence has also diminished the chances of continued work in improving available services. Thus, it is difficult to expect realistic objectives to be achieved without realistic support to be available to achieve said objectives."

The SPA director suggested that the Congress eliminate the one-half State share stipulation.

Louisiana

In commenting on local jails in Louisiana's 1974 State plan, the SPA said:

> "The majority of these facilities are aged, overcrowded, and constructed without forethought of sound correctional practices."

Before fiscal year 1975, the Louisiana SPA had encouraged local jail improvement. However, two SPA funding policy changes now preclude or discourage using LEAA funds for jail improvements in the State. Currently,

---

1/ Although these projects did achieve some consolidation, the ability of these facilities to offer some of the desirable standards -- both physical and programmatic -- not practicable because of the small capacity of the new facilities (4, 12, 18, and 31).

the Federal share of a construction project funded under part C of the act cannot exceed 50 percent of the cost, and the State must provide at least one-half of the non-Federal funding. The State government is not willing to spend funds to provide its share for construction. Therefore, the SPA has adopted a policy not to fund construction using part C block funds. Any new local construction would be limited to discretionary or part E funds. Under part E funds, the SPA limits the Federal funds to only 50 percent of the project cost rather than up to 90 percent as authorized by the act. The SPA also requires the local government to provide the entire 50-percent non-Federal share.

In addition, the Louisiana SPA has adopted other funding policies to better insure that regional jails are developed. The SPA believes that regionalization will

--foster greater rehabilitative measures,

--provide adequate security measures to meet modern-day correctional standards, and

--result in economic advantages.

Texas

Texas recognized its local jail needs in its 1975 Criminal Justice Plan when it commented:

"Detention facilities in the State mainly suffer from lacks -- lack of repair, lack of acceptable security standards, lack of programs that might minimize the social damage sometimes inflicted on persons detained, lack of financial and service resources, lack of community support, and lack of personnel training."

In Texas, priorities for projects to be funded with LEAA money are determined primarily at the regional planning unit level. At the time of our review, there had been new requests for jail improvement projects in Texas. This was attributed, in part, to the community attitude that jails are places of punishment. However, as a result of recent Federal court orders to improve local jail conditions, more attention might be given to local jails.

In commenting on this report, the Texas SPA stated:

"The Texas Criminal Justice Division (SPA) has been cognizant of the serious problems in the jails, but with limited funds in the area of jail renovation and construction and 254 counties in the State, the agency has been concentrating primarily on assisting the counties in the corrections system planning process. Unfortunately, once the county or counties (consolidation) have reached a decision based on comprehensive planning, in most instances, sufficient funds are not available on the local level to finance a major portion (66 2/3 to 75%) of the renovation and construction phase of the project. Based

on these conditions, a significant increase of funds from other sources is desperately needed."

The Texas SPA was concerned that the conditions found the few jails we visited might not present a true picture of the jail problem in Texas. Accordingly, the SPA cited a survey of Texas jails completed by the Texas Department of Corrections' Research and Development Division. The survey, done from November 1973 to November 1974, covered 94 percent of the State's counties and found that:

--Approximately 49 percent of the jails have from one to four full-time employees and 50 percent indicate that they use part-time help.

--Approximately 58 percent of the county jails do not provide 24-hour supervision for each cell block.

--Sixteen percent of the jails were built before 1900 and 61 percent were built before 1940.

--Forty-four percent of the counties were in the process of constructing or renovating their jails.

--An estimated 12 percent of the jails added additional bunks during peak periods, while 40 percent reported sleeping prisoners on the floor.

--Sixty-seven percent of the jails indicated that their bed capacity ranged from 3 to 40, and 29 percent indicated their bed capacity ranged from 41 to 1,431.

--The number of cells in each county jail ranged from 1 to 30 for 85 percent of the jails and from 31 to 100 for 6 percent of the jails.

--Approximately 42 percent of the jails reported serving less than three meals per day, and the onsite survey revealed the absence of dietary programs for the jails. In addition, a significant number of jails indicated having inadequate facilities for serving or preparing meals.

--The onsite survey revealed that 10 percent of the jails provided visiting rooms, 58 percent provided religious services, and 70 percent provided commissary services.

--A maximum of 12 percent of the counties indicated the use of rehabilitation programs in their jails.

--Approximately 48 percent of the counties indicated that they were experiencing plumbing and/or electrical malfunction.

In our opinion, the Texas survey shows that the conditions we found in the renovated jails were rather common in the State.

The SPA believed that the "mechanism" needed to upgrade Texas jails may be contained in recently passed State legislation. However, this action does not resolve the problems of financing needed improvements. The SPA described the recent legislation thusly:

> "In 1975, the Legislature of the State of Texas passed House Bill No. 272 which established a Commission on Jail Standards. The Commission was created due to increasing pressure from Federal Courts acting on law suits that have so far targeted facilities and treatment of prisoners in twenty (20) Texas jails. Reports show only six (6) of the 254 counties have jails that meet State health department standards on sanitation, health and population.
>
> "Basically, the duties of the Commission are: (1) to promulgate reasonable rules and procedures establishing minimum standards for the construction, equipment, maintenance and operation of county jails; custody, care, and treatment of prisoners; the number of jail supervisory personnel and for programs and services to meet the needs of prisoners; and programs of rehabilitation, education, and recreation in county jails; (2) to provide consultation and technical assistance to local government officials with respect to county jails; (3) to review and comment on plans for the construction and major modification or renovation of county jails; and (4) to inspect county jails annually to insure compliance with State law, commission orders and rules and procedures promulgated under the Act. In addition, to the above general duties, the Commission has specific enforcement powers as follows:
>
> "When the Commission finds that a county jail is not in compliance with State law or rules and procedures of the Commission, or fails to meet the minimum standards prescribed by the Commission or by State law, it will report the noncompliance to the county commissioners and sheriff of the county responsible for the jail that is not in compliance. The Commission will send a copy of the report to the Governor. The Commission will grant the county or sheriff a reasonable time, not to exceed one year after a report of noncompliance, to comply with its rules and procedures and with State law. If the county commissioners or sheriff does not comply within the time granted by the Commission, the Commission may, by order, prohibit the confinement of prisoners in the noncomplying jail and designate another detention facility for their confinement. The county responsible for a noncomplying jail will bear the cost of transportation and maintenance of prisoners transferred from a noncomplying jail by order of the Commission. The Commission, in lieu of closing a county jail, may institute an action in its own name to enforce, or enjoin, the violation of its orders, rules, or procedures, or of Article 5115, Revised Civil Statutes of Texas, 1925, as amended. The Commission will be represented by the Attorney General."

The diverse approach to funding local jail projects is matched by the diverse level of improvement achieved by the various projects as described

in the following two chapters. Appendix II contains details on the amounts and purposes of the projects selected for review.

CHAPTER 3

NEED TO IMPROVE OVERALL PHYSICAL CONDITIONS OF LOCAL JAILS

Only 29 to 76 percent of the desirable characteristics for local jails generally cited by various criminal justice authorities were present in the 22 local jails reviewed. The 22 jails included 6 newly constructed facilities and one renovated facility not previously used as a local jail. The conditions in some of the jails appeared similar to conditions in other jails which had been found unacceptable by the courts.

DESIRABLE CHARACTERISTICS FOR LOCAL JAILS

What are acceptable physical conditions in local jails? There are no nationally acknowledged standards. Although some States have established criteria for inspecting local jail conditions, an American Bar Association report published in August 1974 stated that only 15 States have statutory authority to prescribe and enforce minimum standards and inspect local jails. Other States may have established inspection requirements but have no procedures for insuring corrective action.

Several associations or groups have issued advisory standards or discussed desirable characteristics for local jails. These include:

--"Guidelines for the Planning and Design of Regional and Community Correctional Centers for Adults," National Clearinghouse for Criminal Justice Planning and Architecture.

--"Guidelines for Jail Operations," National Sheriffs' Association.

--"Corrections," National Advisory Commission on Criminal Justice Standards and Goals.

--"A Manual of Correctional Standards," American Correctional Association.

Using these sources, we developed a compendium of desirable characteristics to assess the physical conditions of the local jails visited. We grouped the characteristics into four major categories.

Under the category of inmate security and safety, we assessed whether the jails had (1) populations not exceeding capacity, (2) single occupancy cells only, (3) adequate segregation of offenders by sex, age, and degree of violence, (4) operable emergency exits and fire extinguishers, (5) operable cell doors, (6) matrons present for female offenders, and (7) no drunk tanks.

To assess the sanitary conditions, we considered whether cells had operable toilets and wash basins and whether showers were clean and worked.

We also considered the availability of such personal items as soap and toothpaste and the cleanliness of such things as blankets, sheets, and towels. To assess inmate comfort and rehabilitation, we considered whether dining facilities were separate from the cell blocks and whether such things as recreation facilities, ventilation, and lighting were adequate. Regarding privacy, we assessed such things as whether visiting space was separate from the cells and whether there was a private area where the prisoners were searched when first imprisoned.

INADEQUATE CONDITIONS

The absence of a significant number of desirable characteristics in the jails visited, after the jails had spent Law Enforcement Assistance Administration funds, indicates the extent of deficiencies in local jails and the need for a strategy for improving such facilities. To assume that every jail should have all of these characteristics is unrealistic. Inmate comfort, rehabilitation, and privacy characteristics increase in importance proportionately to the length-of-stay. Other characteristics, especially inmate security and safety, are important regardless of the length of incarceration.

In evaluating the conditions at each location, we determined the total number of listed features available at a particular jail and computed it as a percentage of the total items applicable to that particular jail. The following table summarizes by State and by general area the characteristics found in locally operated jails. The detail for each jail is shown in appendix III.

Percentage of Desirable Features Found by State

	Ohio	Iowa	Louisiana	Texas
Number of jails visited	5	6	6	5
Desirable features available:				
Inmate security and safety:				
Range	40/60	40/80	40/100	50/80
Average	50	60	58	65
Sanitation:				
Range	43/71	29/79	36/86	36/86
Average	57	63	61	60
Inmate comfort and rehabilitation:				
Range	10/70	10/40	20/80	20/50
Average	28	22	45	34
Privacy:				
Range	25/75	50/100	25/100	25/100
Average	45	71	64	55

	Ohio	Iowa	Louisiana	Texas
Total:				
Range	34/68	29/63	34/76	42/68
Average	46	52	57	54

We also visited some State-operated facilities serving the type of population that is housed in local jails in other States. These States had not used LEAA funds to physically improve their institutions, but we visited them for comparative purposes. Our evaluation of the physical characteristics of these facilities indicated that, generally they offered a better facility to inmates although they did not meet all desired characteristics, as shown in the following table and illustrations V and IX. The detail for each facility is shown in appendix III.

Percentage of Desirable Features Found by State

	Rhode Island	Delaware
Number of jails visited	1	3
Desirable features available:		
Inmate security and safety:		
Range		56/71
Average	79	61
Sanitation:		
Range		64/93
Average	89	81
Inmate comfort and rehabilitation		
Range		90/100
Average	98	93
Privacy:		
Range		100/100
Average	100	100
Total:		
Range		74/87
Average	92	82

Some of the more common problems in the jails are (1) lack of adequate segregation of classes of inmates, (2) multiple occupancy cells, (3) the presence of guard corridors, 1/ (4) drunk tanks, and (5) lack of dining and

1/ A guard corridor is a passageway between the exterior wall and the back of the cells. Inmates are generally not permitted in these corridors.

recreation facilities and space for rehabilitation programs. Some lack operable toilets in cells and laundry facilities for inmates' personal clothing and do not provide items such as toothpaste, razors, sheets, or pillows. Regular visiting space is frequently not separate from cell areas and does not offer any privacy, even for minimum security offenders. The following sections discuss why some characteristics are deemed desirable and why the facilities visited were or were not acceptable.

Inmate security and safety

This category includes the features of jails that provide protection to the inmate, such as segregation of various classifications of inmates and female supervision of female inmates.

According to the criteria we used, cells should be designed for single occupancy. In addition, all handling and supervision of female prisoners should be by female employees, and 24-hour matron service should be available. Normally, no male employee should enter the women's quarters unless accompanied by the matron.

Four of the 22 local jails visited had only single occupancy cells. The other 18, including 3 of the new facilities, had multiple occupancy facilities with varying capacities. For example, the McLennan County, Texas, jail had eight single occupancy cells, two 4-man cells, eight 6-man cell, and two 16-man dormitories.

Jail adminsitrators usually allowed all males to leave cells and congregate in cell block corridors. In three jails, the cell doors would not lock, although the doors to the cell block did lock. Operable cell block doors are necessary to assure the safety of the public, and operable cell doors are necessary to provide for the safety of all inmates.

Illustrations I and II depict a typical cell in the new facility in Kossuth County, Iowa. This facility has single occupancy cells. However, single occupancy cells were not present in all the Iowa jails which received LEAA funds. As shown in illustration III, the area to house females in Woodbury County, Iowa, was constructed to house at least three in a room. The depressing cell areas in the Hamilton County, Ohio, jail (illustration IV) and the Sussex Correctional Institution in Delaware (illustration V) also show cells in which at least two persons were kept. The Hamilton County jail had 170 double occupancy cells. The jail population on the date of our visit was 235 inmates, and the jail generally housed an average of 270 inmates.

Desirable characteristics for housing female inmates were not always met. Five of the 22 local jails did not provide adequate audio segretation of adult female inmates from male inmates. For example, in Perry County, Ohio, the second floor of the jail was used to house female offenders, if the male population did not exceed the first floor capacity. If the second floor was needed for male inmates, female inmates were transported to a neighboring county jail. No provision had been made for audio segregation between floors. Eleven facilities failed to provide audio segregation between adults and juveniles.

In regard to fire protection, nine of the local jails and one State facility did not have operable emergency exits and five local jails and the same State facility did not even have fire extinguishers or hoses available. These conditions are probably not even acceptable under local fire and building safety regulations.

Nine of the 20 local jails having accommodations for females did not provide 24-hour-a-day female supervision. Although it might be argued that it is not necessary to have 24-hour matron service, it is considered essential by correctional experts. A recent event demonstrated the reason why a matron should supervise female inmates 24 hours a day.

On August 27, 1974, a female inmate stabbed to death a male jailer whom she alleged was attempting to rape her. She was charged with first degree murder but was subsequently acquitted of the reduced charge of second degree murder. When the incident occurred, the woman had been in jail for 81 days. The jail had no matron on the staff and, according to the Southern Poverty Law Center's "Poverty Law Report,"

> "Women * * * had no privacy while bathing, changing clothes, or using toilet facilities. Prior to the jailer's death, they were under 24-hour surveillance by closed circuit television cameras which male personnel, or anyone in the jailer's office, would watch."

Since the incident, attorneys for the woman have filed a Federal court suit asking, among other things, that constitutional standards be set for care of female inmates in this particular county's jail.

Sanitation

This category includes the toilet and shower accommodations available to inmates as well as other hygiene items. A pervasive characteristic of the jails visited was their general low level of sanitation and cleanliness, which affects the health and morale of inmates and staff confined together in the jail. Such elementary commodities as towels, toothpaste, safety razors, 1/ and clean bedding were frequently in short supply or totally absent.

Moreover, since single occupancy cells are more desirable for housing inmates, they should be equipped with necessary plumbing to assure that cells need not be opened at night. The lack of operable toilets in each cell precluded some jails from being able to confine their inmates within the cells. Four of the 22 local jails visited had cells which either did not contain a toilet or did not have an operable toilet at the time of our visit. For instance, the Logan County, Ohio, jail has 3 toilets for the entire 2-tier main cell block with a capacity of 18. One of these is in an isolation cell; the others are for the rest of the inmates.

1/Safety razors and blades are accounted for by the jail staff to guard against theft and misuse.

The depressing physical characteristics of some jails visited are illustrated by the cells in Hamilton and Logan Counties in Ohio and in the Sussex Correctional Institution in Delaware. (See illus. IV, V, and VI). Some of the cells in Hamilton County were improved by the installation of new toilets in front of the in-the-wall facility. However, due to limited local funds, not all the cells were improved. The cell shown was one that was improved under the LEAA-funded project.

The condition of shower facilities also varied greatly as shown in illustrations VII, VIII, and IX. Four of the 22 local jails and 1 of the State-operated facilities we visited had, in our opinion, very unsanitary shower facilities that were extremely rusty and moldy.

Inmate comfort and rehabilitation

This category includes

--the dining area outside the cell and toilet area,

--adequate ventilation and lighting within each cell,

--recreation space, and

--absence of guard corridors.

The principle of human dignity and the purposes of rehabilitation require that offenders be accorded generally accepted standards of decent living. This applies to food, clothing, and shelter, as well as physical and mental health needs including recreation.

According to the criteria we used, inmates should not eat in cells, particularly if the cells contain sanitation facilities. The National Clearinghouse for Criminal Justice Planning and Architecture suggests that the dining setting convey a sense of eating together in an informal environment and recommends individualized seating through moveable furniture and small tables. Straight line eating arrangements should be avoided.

The State-operated jails had separate dining facilities; however, only three of the local jails had such facilities, and two of these involved facilities at the miltiparish minimum security farms. The dining facilities at the Hamilton County, Ohio, jail consisted of permanently affixed tables with a bench on one side, as shown in illustration X. Although all inmates must face the same direction, at least the eating area was not in the cell block area. Typically, either a picnic-type combination dining/recreation table was located in a cell block corridor or no dining arrangement was provided, thus forcing inmates to eat in their cells. Illustrations III and XI show the combination dining/recreation table arrangement. In 16 of the local jails visited, inmates must eat in full view of toilet facilities; 9 facilities had either picnic table or table and chair accommodations; and 7 facilities offered no accommodations and inmates ate in their cells.

Recreation should be recognized as a wholesome element of normal life, and numerous criminal justice sources advocate the need for recreation

facilities. However, only four of the local jails had indoor recreation facilities and only five had outdoor facilities.

Many facilities are designed generally for maximum security and include guard corridors, areas between the cells and exterior walls. The National Clearinghouse for Criminal Justice Planning and Architecture does not believe guard corridors are needed even with maximum security. They diminish natural lighting and prevent access to an exterior view. Illustration XII shows a typical guard corridor. Seventeen of the local jails had guard corridors which restricted the outside area that an inmate could view from his cell. This situation contributes to the boredom and frustration that offenders in such facilities experience.

Privacy

This category includes the type of space svailable for (1) visiting families and officials and (2) receiving or admitting procedures.

As important as it is to provide a healthy, safe environment to inmates, the ability to have frequent visits in an area that affords privacy is also important Short length-of-stay inmates who offer little custody risk could be allowed face-to-face visiting in informal settings, and special consultation rooms should be available for visits from law enforcement personnel, attorneys, and clergy. Space should also be available so incoming prisoners can be searched in private.

Illustration XIII shows the visiting facility for the Childress County, Texas, jail. It consists of a small part through which the inmates converse with visitors. Many of the facilities we visited did not have adequate visiting space. Normal visiting space (excluding that provided for meetings with legal counsel) was separate from the cell area in 11 of the local jails we visited. The visiting space afforded privacy for conversations in only six of these facilities. Illustration XIV is an example of private visiting space made available for conferences with attorneys. Most of the jails did provide some type of private area for legal discussions.

Five of the local jails did not have a private area for search. Prior to LEAA-aided renovation, the Hamilton County, Ohio, jail, conducted strip searches in an open corridor between the two main cell blocks. The renovation project provided a private area for strip searches.

CONCLUSION

Overall, the local jails we visited did not appear to be in adequate physical condition even after receiving LEAA funds to improve them. Many of the characteristics considered in criminal justice experts and Federal courst to be necessary to classify the jails as physically adequate were not present.

There will never be unanimous agreement on the standards necessary in jails to make them acceptable for housing offenders. Objections might be taken on the criteria we used to access the physical adequacy of the jails. It might be argued that offenders do not deserve such facilities.

Our purpose in doing the criteria we did was not necessarily to endorse the aspects of those criteria, but to assess the improvements in the conditions of jails after expenditure of LEAA funds.

Any public facility should meet certain minimum safety and health standards. Thus, LEAA and the States should address what standards and criiteria should be applied to judge the adequacy of the physical conditions of local jails. The crite ia we cited earlier in this chapter could be a starting point for arriving at standards acceptable to both LEAA and the States.

CHAPTER 4

NEED FOR ASSISTANCE TO INMATES IN LOCAL JAILS

Local jails are considered to be the intake point of the criminal justice system and, as such, should provide an opportunity to help inmates at an early stage. Five jails offered no services. Fifteen of the 22 locally operated jails provided only limited services, which were generally religious- or alcoholic-oriented or limited work release. The two farms offered more services. (See app. V.) The four State-operated facilities offered a greater variety of services, but these were not available to all classes of inmates.

The President's Commission on Law Enforcement and Administration of Justice stated in 1967,

> "* * * even the short term of most misdemeanant sentencing can be turned to advantage given more adequate resources and better developed processes for referral to community treatment agencies outside the criminal justice system."

The National Advisory Commission in 1973 recommended as one of its standards that local correctional facilities provide activities oriented to the inmates' individual needs, personal problem-solving, socialization, and skill development. The Commission recommended that these activities include:

--Educational programs available to all residents in cooperation with the local school district.

--Vocational programs provided by an appropriate State agency.

--A job placement program operated by State employment agencies and local groups representing employers and local unions.

--Counseling.

Although services are considered desirable, there are no nationally acknowledged standards.

According to jail administrators, one reasons why assistance programs had not been provided was the inmates' short length-of-stay. Extensive assistance programs are not practical for this class of inmate. However, considering the number of inmates incarcerated at the local level and the apparent pattern in their demographic background, such as young age and alcohol-related offenses, minimal counseling should be provided so the offenders could use further services upon release. This counseling could be provided by a jail staff member or a volunteer. For longer term inmates, greater consideration needs to be given to work or assistance release programs.

In most communities, the educational system, church and civic groups, social welfare agencies, and county alcoholics anonymous organizations could provide some assistance. Representatives of the organizations we contacted were willing to provide assistance although, in some instances, financial limitations restricted the extent of help that could be offered. Generally, the organizations had not been contacted by personnel responsible for jails; furthermore, there is no requirement by either the Law Enforcement Assistance Administration or the States that the local jail officials do so.

CHARACTERISTICS OF INMATES IN JAILS VISITED

We developed or obtained demographic data to determine the characteristics of the inmates in the 22 local jails and the 4 State-operated facilities visited.

Local jails

Some of the data for the locally operated jails is shown on the following page. More information is in appendix IV.

The demographic data shows that the inmate population was predominantly under 30 years of age. Traffic- and alcohol-related offenses constituted a significant percentage of the reasons for incarceration--over 50 percent in about half the jails. In all of the locally operated jails, excluding the farm which houses sentenced inmates only, more than 70 percent of the inmates were incarcerated less than a week.

As shown in appendix IV, the local jail population consisted predominantly of male residents of the county in which the jail is located or of neighboring counties. In addition, 60 to 90 percent of the individuals were awaiting trial.

State-operated jails

Demographic data for the four State-operated jails was obtained from recent State studies. The studies show that inmates of State-operated facilities are also predominantly under 30 years of age. The offenses and lengths-of-stay of inmates at these institutions, however, are not comparable to those in local jails. Local jails primarily house persons awaiting trial and offenders sentenced to less than 1 year. State-operated jails also house such persons, as well as those sentenced to longer terms, including life in prison.

- - - -

The 1970 and 1972 national studies on local jails have shown that jail inmates are predominantly young males; over half are pretrial detainees or otherwise not convicted. Sentenced inmates are usually associated with misdemeanors, the most common being drunkenness or vagrancy, traffic violations, and drug possession. The 1972 study reported that about 6 in 10 were less than 30 years old. The demographic data we obtained also showed that the percentage of inmates under 30 ranged from 37.5 percent to 85 percent with the median being 59.3 percent.

Jail	Percentage of inmates		
	Under 30 years of age	With alcohol- or traffic related offenses	With length-of-stay less than 7 days
Ohio:			
Licking County	56.9	51.8	84.9
Perry County	45.0	55.0	95.0
Logan County	50.5	59.0	89.4
Shelby County	57.1	59.7	90.3
Hamilton County	77.9	a/4.0	71.3
Iowa:			
Dubuque County	77.3	45.5	88.6
Kossuth County	45.0	52.5	92.5
Woodbury County	79.7	18.9	78.2
Monona County	71.4	33.3	88.1
Appanoose County	85.0	42.5	80.0
Scott County	60.7	39.3	88.8
Louisiana:			
Quachita Multi-parish prison (note b)	59.5	46.0	78.0
East Carroll Multiparish:			
Jail	37.5	10.0	87.5
Farm	60.0	22.5	(c)
St. Martin Parish	60.8	22.2	89.9
Leesville City	71.9	37.9	83.7
Texas:			
Bastrop County	43.4	58.7	88.7
Atascosa County	59.3	65.5	92.3
Gillespie County	60.0	61.0	100.0
McLennan County	59.1	39.8	86.5
Childress County	44.5	60.0	88.9

a/Alchol- and traffic-related offenses are handled at the Cincinnati Workhouse. There is also a program in operation in Cincinnati to handle drunk drivers in lieu of incarceration.

b/Separate records for the jail and farm populations were not maintained.

c/Only sentenced minimum security offenders are housed at the prison farm.

AVAILABILITY OF SERVICES

We inquired as to the availability of services at the jails, such as those suggested by criminal justice experts and those available from community resources (vocational and educational agencies and alcohol, drug, religious, or social service counseling agencies).

Local jails

A summary of services available to the inmates of the 22 locally operated jails is shown below. More information is in appendix V.

	Ohio	Iowa	Louisiana	Texas	Total
Number of jails visited	5	6	6	5	22
Number of jails offering these services:					
Work release	-	5	2	-	7
Furlough	-	-	2	-	2
Educational release	-	-	-	-	
Vocational training	-	-	2	-	
Vocational counseling	-	-	2	-	
Job placement	-	-	1	-	1
Education	-	-	2	-	2
Alcohol	1	3	1	1	
Drug abuse	-	-	1	1	
Religious	4	3	5	2	14
Social service counseling	1	-	1	-	

The locally operated jails, even those with a larger capacity, offered practically no services. Work release and religious services were the most commonly available, but even the existence of these varied among the States. In almost every instance, local jail administrators attributed the lack of services to inmates' short length-of-stay. They believed services are not practical unless an inmate is confined for at least 90 days, which generally was not the case in the jails visited.

As shown in appendix V, 5 of the 22 jails offered no services and 7 offered only 1. The Hamilton County, Ohio, jail, the largest of the local jails we visited, offered only religious services. The two multiparish farms in Louisiana offered the most services, but these facilities housed only sentenced minimum security inmates.

State-operated jails

The two State-operated systems shown in the following table generally offered a number of programs for inmate assistance. The existence of such programs supports the apposition that larger institutions, with inmates serving longer lengths-of-stay, are more likely to offer services.

	Rhode Island	Delaware	Total
Number of jails visited	1	3	4
Number of jails offering these services:			
Work release	1	3	4
Furlough	-	3	3
Educational release	1	3	4
Vocational training	1	2	3
Vocational counseling	1	2	3
Job placement	1	1	2
Education	1	3	4
Alcohol	1	3	4
Drug abuse	-	3	3
Religious	1	3	4
Social service counseling	1	3	4

Even the services in these State institutions, however, were limited in capacity and had restricted participation. In Rhode Island, where all types of offenders are housed at the location, services were available only to sentenced inmates, even though about 20 percent of the approximately 366 inmates were awaiting trial. Jobs in most shops, such as the printing, tailoring, publication, and hobby shops, were available only to inmates in the maximum security unit, and about 75 of the 366 inmates in maximum security were employed in those efforts. The work release program had only 25 participants, and only 3 inmates were in study release programs.

In Delaware, educational and vocational programs were available to both sentenced and pretrial inmates but the programs were limited. There was no vocational training or counseling available at the Women's Correctional Institution, and only jobs in a furniture shop or farmwork were available at the Sussex Correctional Institution. In addition, sentenced or pretrial inmates could participate in vocational or educational programs only if it could be shown that the inmate would be incarcerated long enough to complete a course and had the basic intelligence quotient to handle course material. Only sentenced inmates could participate in work release, and the approximate number of participants was 71 of an average daily population of 700.

The services available at the facilities we visited are detailed in appendix V.

AVAILABLE COMMUNITY RESOURCES

In the communities visited, we inquired into the availability of organizations to provide minimal services to local jail inmates. The organizations contacted included school boards, alcoholic programs, employment services, ministerial societies, and public welfare agencies. Since State-operated jails do offer various services--even if on a restrictive basis--we limited our effort to communities in the four States operating local jails.

Resources were available in many communities, and organizations were willing to provide some services. However, 63 percent of the organizations visited had not been contacted by jail administrators. Another 23 percent had been contacted infrequently.

As an example, representatives of five organizations we contacted in Childress, Childress County, Texas, commented on services. Representatives of Alcoholics Anonymous and the State employment service indicated they provided limited services and were willing to continue with no additional financial resources. The superintendent of schools and members of the Council of Ministers had not been contacted by the jail administration and did not provide services but would be willing to do so. The superintendent of schools indicated that additional funding would be needed. A representative of the Department of Public Welfare stated the department could provide assistance only to inmates' families.

We received similar responses from five organizations in Centerville, Appanoose County, Iowa. The five organizations--the Indian Hills Community College, the County Ministerial Association, and the three discussed below--had not been contacted and did not provide services but were willing to do so. However, the Iowa State Department of Social Services and the Iowa employment service indicated a need for additional funds and/or staffing. The superintendent of the district community schools stated that by law, any services provided by the schools had to be limited to persons under 20 years of age.

The following table summarizes by State the results of our inquiries.

	Ohio	Iowa	Louisiana	Texas	Total
Number of communities visited	4	6	5	5	20
Number of organizations contacted	24	35	25	25	109
Contacted by jail officials to provide services:	----------(percentages)----------				
No contact	63	68	48	72	63
Informat and/or infrequent contact	33	6	36	24	23
Currently providing services	4	26	16	4	14
Organization's attitude toward providing services:					
Willing to provide services	62	57	44	56	55
Unable to provide services	13	3	24	28	16
Unwilling to provide services	21	14	16	12	15
Currently providing services	4	26	16	4	14
Restrictions to providing services:					
No restrictions	23	63	60	72	55
Inadequate resources	46	23	36	28	32
Miscellaneous	31	14	4	-	13

Sixty of the 109 organizations contacted (55 percent) were willing to provide services; however, 36 of the 109 organizations (32 percent) stated their present financial or staffing resources would restrict such services.

Therefore, other means should be found to supplement such groups' efforts. One available resource could be community volunteers. Criminal justice experts believe that volunteers are a viable resource for rehabilitative programs. They also point out that volunteers can serve a secondary purpose of communicating to citizens an awareness of the conditions of jails and possibly exert community pressure to improve the jails.

An LEAA-funded study 1/ concluded that between 60 to 70 percent of the criminal justice agencies surveyed had volunteer programs. Literature on criminal justice includes examples of successful programs using volunteers, such as:

--In a Royal Oak, Michigan, program volunteers are a major element in an extensive program for misdemeanants which offers individual and group counseling, job placement assistance, and aid with family problems. Partial pay is provided for some participants, but many other citizens serve without pay.

--The objective of a project in Westchester County, New York, was to demonstrate how citizen volunteers could effectively enrich the activities program in a short-term institution. Forty-one volunteers with various professional backgrounds but without any prior experience working with offenders were recruited and trained in the special requirements governing work in a correctional institution. Courses in needlecraft, typing and shorthand, personal grooming, nursing, and arts and crafts were organized. The results showed that citizen volunteers can enrich the activities program in a short-term correctional institution.

--Charlottesville, Virginia, has a program involving about 100 volunteers working with individual inmates at the county jail. A broad range of inmate programs operate in the jail including work release; alcoholism counseling; remedial educational, art, and hobby programs; and limited indoor recreation. All are conducted without cost to the jail.

On the basis of information developed in the LEAA-funded study and the three locations just mentioned, jail administrators apparently actively sought and used community resources. However, in the local jails visited, the administrators made little effort to contact the community to obtain any services for the inmates. One reason for their lack of action may have been the pressing needs to attend to other duties. One way to ease the problem would be for each jail to use a county social service worker, a volunteer,

---

1/"Guidelines and Standards for the Use of Volunteers in Correctional Programs," National Institute for Law Enforcement and Criminal Justice, Law Enforcement Assistance Administration, Aug. 1972.

or someone hired specifically to act as a resource person and counselor to inmates in the jails to encourage the inmates to use available community resources. Such an approach is a relatively effortless and inexpensive way for small jails to at least begin to address the needs of offenders.

CONCLUSION

Local jails have not provided adequate services to inmates; more needs to be done. However, because of the low number of offenders incarcerated in the jails for long periods, it is apparently impractical and probably cost ineffective to assume that such jails should develop sophisticated service programs. Nevertheless, some actions could be taken.

Local jails could rely much more on community resources already available. More consideration could begiven to work programs. Finally, local jails could employ resource counselors to talk to the inmates about their problems and to act as catalyst to get the inmates to avail themselves of services once they leave the jail. At a minimum, LEAA and the State planning agencies should do a better job of encouraging local jail administrators using LEAA funds to use those community organizations available to assist inmates. LEAA and the SPAs should also work together to develop standards and criteria citing the services needed for different offenders and the types of community assistance that jail administrators should seek.

CHAPTER 5

OVERALL CONCLUSIONS, RECOMMENDATIONS AND AGENCY COMMENTS

CONCLUSIONS

Inadequate physical conditions and lack of services are still problems in local jails. The lack of action in some communities to correct these problems has led the courts to order communities to either improve the conditions in local jails or close them. Such court action indicates the general lack of priority given the problem by executive agencies at all levels of government.

Both the Law Enforcement Assistance Administration and the States have emphasized community-based correction programs as alternatives to incarceration. This emphasis appears consistent with congressional interest in community-based correction efforts. But even recognizing that emphasis should be given to improving other aspects of the corrections system, the lack of progress in improving local jails is disconcerting, as is the fact that in many cases LEAA funds have been used for minor improvements and repair of jails. Such actions have undoubtedly improved the jails, but from an overall standpoint the impact on their condition has been insignificant.

The problem calls for some national leadership from LEAA. LEAA should consider what long-term role local jails should have in our correctional system based on research and evaluation and then adopt funding strategies to move the Nation toward that end.

One issue that could be addressed is whether LEAA should continue to allow its funds to be used to correct minor problems in local jails--especially small ones that house mainly nonviolent offenders for periods usually less than 1 week--when improvements will not result in the jails' meeting certain minimum standards. Even if LEAA decides to continue funding local jail improvements to prevent court-ordered closure, how long should such a policy continue? Such efforts, at best, overcome only immediate needs.

We believe that LEAA and the States should insure that block grant funds are used to bring local jails up to certain minimum standards for physical conditions and programs to assist inmates. The Federal Government has some obligation to try to bring about improvements when its funds are spent. States or localities should use their own funds if they want to make minor improvements in jails which will not meet minimally acceptable physical standards. Also, LEAA should require States and grantees to justify the use of funds for specific local jails if it appears that regional jails might be more efficient and effective.

LEAA could be a positive force in improving the jail situation through its plan approval process and its ability to persuade the States to move in certain directions. This would be in line with the response of the De-

partment of Justice to our May 28, 1975, report entitled, "Federal Guidance Needed if Halfway Houses Are To Be a Viable Alternative To Prison" (GGD-75-70). In that response, the Department acknowledged the need for minimum standards for facilities and that LEAA had leverage through block grant funds to encourage following standards.

RECOMMENDATIONS TO THE ATTORNEY GENERAL

We recommend that the Attorney General direct the LEAA Administrator to:

--Analyze LEAA's position regarding the way local jails should be used in the entire correctional effort, including a study of the barriers to establishing regional facilities and the means to overcome these barriers. One possible action LEAA could take would be to require justification for funding local jail improvements if it appears that regional jails might be more efficient and effective.

--Establish, in conjunction with the States, minimum standards for physical conditions of local jails that must eventually be met if LEAA moneys are provided to improve such jails and require, as a condition of awarding any such funds, that the communities seeking such funds, that the communities seeking such awards submit a plan detailing what actions, over a specified period, would be taken to bring the jail up to the established standards. (The plan would serve as a basis for allowing LEAA to seek recovery of Federal funds spent on the jails if the community does not adhere to the actions and timetable detailed in it.)

--Establish, in conjunction with the States, minimum standards as to the services needed for different types of offenders in local jails and the types of community assistance that jail administrators should seek.

--Institute procedures using resources within LEAA regional offices to act as catalysts to encourage State and local officials to seek out community resources for services for inmates in local jails.

To help accomplish the above, we recommend that LEAA suggest to State planning agencies that they require localities seeking funds to improve jails to specify in their grant applications (1) what type of services are operated by the jail to assist offenders, (2) what services are available within the community, and (3) what plans the jail administrator has to use available community resources to improve services provided offenders.

AGENCY COMMENTS

The Department of Justice, by letter dated February 9, 1976, generally agreed with our conclusions and recommendations. (See app. VI.) The Department stated that:

--LEAA intends to make upgrading jails and minimizing their use one of its national priority program thrusts.

--LEAA will attempt to develop a funding policy to achieve a more effective correctional system at the local or regional level. LEAA's objective will be to insure that a methodology is developed (by the State or localities and implemented to accomplish the desired objectives).

--In LEAA's judgment, efforts by the National Clearinghouse for Criminal Justice Planning and Architecture and the National Advisory Commission on Criminal Justice Standards and Goals have provided the cornerstone for the States to develop jail standards. LEAA will fund State efforts to develop such standards.

--In addition, LEAA will try to better assure that steps are taken to upgrade State and local jail conditions by requiring more detailed information from the communities on their plans to achieve established physical standards and desirable services for the inmates.

The Department also pointed out certain limitations that preclude LEAA from directly being able to improve local jail conditions. The Department stated that while LEAA recognizes the leadership role it must play and plans to use every resource at its disposal, the block grant concept places primary responsibility on the States for formulating and enforcing standards for local jails. The Department also noted that the program's matching fund requirements reflect the extent to which local governments desire to or are capable of addressing the local jail problem. The Department stated that if local governments are not committed to improving jail conditions, they simply will not "buy-in" to an LEAA program, particularly if strict standard-setting requirements are conditioned with the grant.

If effectively implemented, the Department's proposed actions should better assure that Federal funds are used to improve local jail conditions as opposed to perpetuating unacceptable situations. However, we continue to believe that LEAA and the States should determine the extent to which certain standards should apply to all States. Progressive States and localities will, by definition, probably establish acceptable standards. The more difficult question to answer is how to develop acceptable standards and conditions in those States less willing to change. One way is to place a condition on the use of appropriate Federal funds. Developing agreed upon minimum standards could facilitate positive changes in such localities should they choose to use LEAA funds for local jails.

RECOMMENDATION TO THE CONGRESS

While the Department of Justice agreed with our recommendations that minimum standards are desirable when spending Federal moneys to improve local jails, it stated that it did not believe the block grant concept gives the agency sufficient power to mandate agreed upon national minimum standards to be applied if Federal funds are used in constructing or renovating local jails.

We believe that LEAA, in cooperation with the States, does have the flexibility to develop agreed upon minimum standards. In addition, the issue of whether LEAA, in conjunction with the States, can develop minimum standards has also been addressed in several of our previous reports to the Congress on the LEAA program. 1/ We, therefore, recommend that the cognizant legislative committees discuss with LEAA whether the block grant concept does contain sufficient flexibility to enable LEAA and the States to adopt agreed upon minimum standards to be applied nationwide when determining whether LEAA funds could be used for certain types of projects or whether additional, clarifying legislation is needed.

1/"Difficulties of Assessing Results of Law Enforcement Assistance Administration Projects to Reduce Crime," B-171019, March 19, 1974.

"Federal Guidance Needed if Halfway Houses Are To Be a Viable Alternative to Prison," GGD-7-70, May 28, 1975.

CHAPTER 6

SCOPE OF REVIEW

The policy of the Congress under the Omnibus Crime Control and Safe Streets Act of 1968, as amended, is to assist State and local governments in (1) Strengthening and improving law enforcement and criminal justice, (2) developing new methods for preventing and reducing crime, and (3) detaining, apprehending, and rehabilitating criminals. We reviewed the conditions of local jails to assess what effect the Law Enforcement Assistance Administration grant program has had on improving conditions of local jails.

To assess LEAA's role, we looked into operations at LEAA headquarters and at the regional offices in Boston; Philadelphia; Chicago; Dallas; and Kansas City, Kansas.

To obtain basic information on local jail improvements, we visited State planning agencies and 26 jails in 6 States as follows:

LEAA region	State	Jails
Boston I	Rhode Island	1
Philadelphia III	Delaware	3
Chicago V	Ohio	5
Dallas VI	Louisiana	6
	Texas	5
Kansas City VII	Iowa	6
Total		26

The States were selected for review on the basis of (1) the amount of LEAA funds used for construction or renovation, (2) the types of facilities (local, regional, and State-operated), and (3) the geographic coverage.

The jails reviewed were selected on the basis of LEAA funding, jail capacity, and geographic distribution. Seventy-five percent of local jails in the United States have a capacity of 20 or less and, therefore, 14 jails visited were small. However, we visited 8 medium-sized jails with a capacity of 51 to 150 inmates and 4 jails with a capacity exceeding 150. The four facilities visited in Rhode Island and Delaware are State-operated and were selected for comparison with the locally operated jails in the four other States. Two facilities visited in Louisiana were minimum security regional farms serving multiple parishes.

We talked with officials and reviewed records at the LEAA regional offices, each State planning agency, and selected regional planning units. We reviewed the conditions of jails, the policies and procedures to improve these conditions through LEAA funding, and the extent of actual funding.

At the jails visited, we discussed with jail administrators the conditions of the jails, the availability of services, and the extent of efforts to improve inadequate conditions. Between July 1974 and April 1975, we inspected each jail and randomly sampled the jail records to obtain demographic data on the inmates. We also contacted representatives of agencies providing services to the communities where the jails were located to determine their knowledge of the needs for services in local jails, the extent to which they had been approached for assistance, and their willingness and ability to provide services.

111

ANALYSIS OF LEGAL STANDARDS FOR MAINTENANCE AND SERVICES REQUIRED TO BE PROVIDED PRISONERS IN LOCAL JAILS

Local jails, in principle, are subject to local law, including municipal ordinances. However, the past 6 years have witnessed a rapidly accelerating and not yet settled development of Federal case law pertaining to the operation of State (including local) prison facilities, a development largely attributable to the collapse of two obstacles to relief: (1) the abstention doctrine (Federal judicial nonintervention) and (2) the requirement of exhaustion of State remedies. The latter is now viewed as inapposite; the former, proscribed. Procunier v. Martinez, 416 U.S. 396, 400 et seq. (1974); Wilwording v. Swenson, 404 U.S. 249 (1971); Jones v. Metzger, 456 F.2d 854 (6th Cir. 1972); Wright v. McMann, 387 F.2d 519, 522-523 (2d Cir. 1967). The breadth of recent decisions may be ascribed to the application of the concept of pendent jurisdiction, a concept that allows Federal district courts to interpret, correct violations of, or enforce ancillary State law. See, e.g., Taylor v. Sterrett, 499 F.2d 367, 368 (5th Cir. 1974), cert. denied, _____ U.S. _____, 43 U.S.L.W. 3500 U.S. Mar. 17, 1975, applying Hagans v. Lavine, 415 U.S. 528, 545 et seq. (1974).

It is now generally recognized that a prisoner is deprived only of those rights "expressly or by necessary implication, taken from him by law." Moore v. Ciccone, 459 F2d 574, 576 (8th Cir. 1972), quoting from Coffin v. Richard, 143 F.2d 443, 445 (6th Cir. 1944), cert. denied 325 U.S. 887 (1945).

Among basic requirements, courts have included: (a) the essential elements of personal hygiene (e.g., soap, towel, toothpaste, toothbrush, and toilet paper); (b) clothing and blankets; (c) access to sinks (including hot water) and showers; (d) clean laundry (or use of laundry facilities) provided on a reasonable basis; (e) essential furnishings (elevated bed, mattress, a place to sit, and sanitary toilet facilities); (f) adequate drinking water and diet, prepared by persons screened for communicable disease in kitchens meeting reasonable health standards; (g) shelter; (h) adequate (but not excessive) heat; (i) exposure only to reasonable noise levels; and (j) light and ventilation. To the extent isolation or segregation cells may still be used at all, for punitive or administrative reasons (including a prisoner's own protection), such detention facilities should be so designed as to allow custodial (preferably, medical or psychiatric) supervision. Prisoners may not be housed in unsanitary or permanently overcrowded cells, or under conditions which may be reasonably anticipated will endanger personal safety or sanity. See, e.g., these Arkansas cases: Finney v. Ark. Bd. of Corr., 505 F.2d 194 (8th Cir. 1974) (Finney), aff'g in part, rev'g in part Holt v. Hutto, 363 F. Supp. 194 (E.D. Ark. 1973), modifying Holt v. Sarver, 442 F.2d 304 (8th Cir. 1971) (Holt III), aff'g 309 F. Supp. 362 (E.D. Ark. 1970), (Holt II), 300 F. Supp. 825 (E.D. Ark. 1969), (Holt I).

APPENDIX I

While local jails may be exempt from compliance with local health and housing codes, prison conditions are unlikely to meet minimum community standards of decency if they totally fail to comply with essential health, safety, and housing (particularly space, ventilation, plumbing, heating, electricity, or sanitation) regulations. Cf. Gates v. Collier, 501 F.2d 1291 (5th Cir. 1974), adopting and aff'g 349 F. Supp. 881 (N.D. Miss. 1972). Similarly, courts have ordered that prison kitchen standards be made to conform with State board of public health restaurant standards. Little v. Cherry, 3 Pris. L. Rep. 70 (E.D. Ark. Jan. 31, 1974).

While the nature of appropriate medical treatment falls within the sound discretion of medical personnel, prisoners may not be deprived of competent medical and dental care. Gates v. Collier, supra; Newman v. Alabama, 349 F. Supp. 278 (M.D. Ala. 1972). Adequate supportive facilities should be available -- not necessarily within the prison -- to meet reasonably foreseeable medical and dental needs, including pharmaceutical and medically prescribed dietary requirements. Finney, supra, 202-204; Steward v. Henderson, 364 F. Supp. 283 (N.D. Ga. 1973).

Medical care must include treatment of drug dependent prisoners, or medically supervised drug detoxification. Wayne County Inmates v. Wayne Co. Bd. of Commr., 1 Pris. L. Rep. 5, 51. 186 (Mich. Cir. Ct. 1971, 1972), substantive issue not disputed on appeal, sub nom., Wayne County Jail Inmates v. Lucas, 216 N.W. 2d 910 (Mich. 1974). Differences in services afforded based on anticipated length of imprisonment have been permitted, provided at least that classification of services afforded prisoners is rational, is based on differences in sources of available funding, and does not deny basic medical needs. Kersh v. Bounds, 501 F.2d 585 (4th Cir. 1974), cert. denied, _____ U.S. _____, 43 U.S.L.W. 3452 (U.S. Feb. 14, 1975).

Reasonable access to the courts may not be denied or obstructed. Johnson v. Avery, 393 U.S. 483 (1969). Facilities must be adequate to permit confidential attorney-client visits. A basic collection of representative legal materials (including case law and search materials) should be available at least on a loan basis. Gilmore v. Lynch, 319 F. Supp. 105 (N.D. Calif. 1970), aff'd under the name of Younger v. Gilmore 404 U.S. 15 (1971). Library size and number of required copies of basic materials necessarily depend on the size and character of the institution. If materials may not be removed to the cells, size and furnishings should be adequate to afford prisoners a reasonable opportunity for research and study. Cf. White v. Sullivan, 368 F. Supp. 292 (S.D. Ala. 1973); Stone v. Boone, 3 Pris. L. Rep. 285 (D. Mass., Oct. 10, 1974) (consent decree).

Prisoners must be permitted to follow the tenets of their religion, including the right to conform to dress and dietary requirements, insofar as their religious beliefs can be reasonably accommodated. Ross v. Blackledge, 477 F.2d 616 (4th Cir. 1973). Chapel or similar facilities and religious materials must be adequate to accommodate the needs of minority faiths, if available to others. Pitts v. Knowles, 339 F. Supp. 1183 (W.D. Wis. 1972), aff'd 478 F.2d 1405. Religious privacy must be protected with services being held in places where prisoners not choosing to attend are not made unwilling participants. Cf. Edwards v. Davis, 3 Pris. L. Rep. 54 (D.N.C. Dec. 11, 1973) (consent decree).

Prisoners are not entitled to benefits not generally recognized as rights enjoyed by the community at large. James v. Wallace, 382 F. Supp. 1177 (M.D. Ala. 1974). Adult education is not provided as a matter of right, and except as otherwise required by local law, rehabilitative services including educational or job training programs need not be provided for adult prisoners. But cf. Holt III, supra, 378-379; Finney, supra, 209.

Moreover, where local jails are used to house persons detained under civil commitment or pretrial detainees unable to raise bail, facilities must be designed and equipped to meet additional requirements. The detainee is presumed not guilty of criminal misconduct; he may not be punished without or before trial. He may be held only under conditions comprising the least restrictive means of achieving the purpose requiring and justifying his detention. Hamilton v. Love, 328 F. Supp. 1182, 1192 (E.D. Ark. 1971). Note, "Constitutional Limitations on Pretrial Detention," 79 Yale L. J. 941, 949-950 (1970). Detention may not be more punitive than incarceration within the State's penal system; it should not be substantially more burdensome than detention in other State or Federal institutions used for the same purpose, in the same area. Rhem v. Malcom, 507 F.2d 333, 336-337 (2d Cir. 1974) (Rhem III), aff'g in part, rev'g in part 377 F. Supp. 995 (Rehm II), 371 F. Supp. 594 (Rehm I) (S.D.N.Y. 1974); Inmates of Suffolk County Jail v. Eisenstadt, 360 F. Supp. 676 (D. Mass. 1973), aff'd 494 F.2d 1196 (1st Cir. 1974), cert. denied 419 U.S. 977 (Eisenstadt).

Detainees committed under civil commitment for psychiatric evaluation or treatment should be committed to facilities designed to provide suitable professional treatment and evaluation. Cf. O'Connor v. Donaldson, ____ U.S. ____ 43 U.S.L.W. 4929 (U.S. June 26, 1975) vacating Donaldson v. O'Connor, 493 F.2d 507 (5th Cir., 1974); see the latter, and cases cited therein, 518-527.

Whether or not the courts will eventually require classification of detainees, they have recognized that maximum security conditions cannot be justified as "the least restrictive means" of assuring that the great majority of pretrial detainees will appear at trial. In individual cases, courts have held that detainees were entitled: (1) to have privacy (including, in one case, the right to be locked in as well as out of the cell), Rehm I, supra, 628, in others, to single cell occupancy, Eisenstadt, 360 F. Supp. 676; (2) to associate with other detainees (to assemble, e.g. for religious services, United States ex rel. Jones v. Rundle, 453 F.2d 147 (1971); (3) to enjoy access to a broad range of reading and writing materials, (Inmates v. Peterson, 353 F. Supp. 1157, 1168-1169 (E.D. Wisc. 1973) (Peterson)); (4) to engage in recreational activities and to use recreational facilities, (Rehm I, supra, 594); and (5) to have outside communication by telephone (Brenneman v. Madigan, 343 F. Supp. 128, 141), letter (Peterson, supra, 1167-1168), and personal contact, including visits by children (Brenneman, supra) and, in one case, conjugal rights arranged in a discreet and circumspect manner (Government v. Gereau, 3 Pris. L. Rep. 20 (D.V.I. May 30, 1973)).

Courts have ordered the reduction of jail population, the closing of nonconforming jails, or substantial alteration of existing facilities, including: (1) removal of cells to provide recreational areas, (2) dismantling of prisoner-visitor telephone systems and walls separating prisoners from their visitors, and (3) the installation of outside telephones. E.g., see Rehm II, supra. Generally, detainees have a right to participate in training or educational programs offered other prisoners. Wilson v. Beame, 380 F. Supp. 1232 (E.D.N.Y. 1974). And one recent case has held that a pretrial detainee participating in a State-approved, medically supervised (mathadone) drug treatment program prior to arrest is entitled to continue the prescribed course of treatment, and could not be subjected to forced (withdrawal) detoxification even though medically supervised. Cuknik v. Kreiger, 3 Pris. L. Rep. 221 (E.D. Ohio, July 16, 1974).

PURPOSE OF LOCAL JAIL PROJECTS REVIEWED

The following information describes the facility on which Law Enforcement Assistance Administration funds were spent and the results that were to be achieved with the funds.

PERRY COUNTY, OHIO

Year facility built -- 1886
Current capacity -- 21
Proposed project cost -- $75,436
LEAA funds awarded -- $28,125 (part C)
$25,125 (part E)

Purpose of the project was primarily to install electronically operated cell doors, a fire escape, two-way monitoring, a ventilation system, vandalproof lighting, toilets and showers, steel-framed bunks, and a visitor speaking and observation port. Painting was also included.

LICKING COUNTY, OHIO

Year facility built -- 1879
Current capacity -- 68
Proposed project cost -- $78,980
LEAA funds awarded -- $50,000 (Part E)

Purpose of the project was primarily to install toilets and showers, electrical lighting, ventilation, steel bunks, and visiting ports. Painting was also included.

SHELBY COUNTY, OHIO

Year facility built -- 1893
Current capacity -- 45
Proposed project cost -- $105,270
LEAA funds awarded -- $35,000 (part C)

Purpose of the project was primarily to convert one cell into a maximum security cell; install toilets, showers, and ventilating fans; improve the laundry and kitchen facilities; and remodel one cell block to segregate juveniles.

LOGAN COUNTY, OHIO

Year facility built -- 1870

Current capacity -- 18
Proposed project cost -- $45,390
LEAA funds awarded -- $34,040 (part E)

Purpose of the project was primarily to convert one cell into a maximum security cell; install toilets, a shower, and a steel-screened enclosure for visiting and temporary holding; and improve existing heating, ventilation, lighting, and electrical wiring. Painting was also included.

HAMILTON COUNTY, OHIO

Year facility built -- 1917
Current capacity -- 363
Proposed project #1 cost -- $300,000
LEAA funds awarded -- $150,000 (part C)

Purpose of the project was primarily to rehabilitate the cell blocks to permit segregation of different classes of inmates and to remodel the kitchen.

Proposed project #2 cost -- $46,487
LEAA funds awarded -- $34,697 (part E)

Purpose of the project was to obtain emergency repairs to toilets and plumbing.

DUBUQUE COUNTY, IOWA

Year facility built -- 1974
Current capacity -- 31
Proposed project cost -- $966,000
LEAA funds awarded -- $351,875 (part C)

The purpose of the project was to construct a new law enforcement center, including combined city-county detention facilities.

KOSSUTH COUNTY, IOWA

Year facility built -- 1973
Current capacity -- 4
Proposed project cost -- $28,480
LEAA funds awarded -- $10,000 (part C)

(For purpose of project see Dubuque County description.)

MONONA COUNTY, IOWA

Year facility built -- 1974
Current capacity -- 12

117

Proposed project cost -- $71,736
LEAA funds awarded -- $38,836 (part C)

(For purpose of project see Dubuque County description.)

APPANOOSE COUNTY, IOWA

Year facility built -- 1974
Current capacity -- 18
Proposed project cost -- $73,541
LEAA funds awarded -- $39,456 (part C)

(For purpose of project see Dubuque County description.)

WOODBURY COUNTY, IOWA

Year facility built -- 1918
Current capacity -- 81
Proposed project cost -- $26,547
LEAA funds awarded -- $9,610 (part C)

Purpose of the project was to improve the sanitary facilities and the electrical system and to repair the flooring. Painting was also included.

SCOTT COUNTY, IOWA

Year facility built -- 1892
Current capacity -- 138
Proposed project cost -- $5,237
LEAA funds awarded -- $2,619 (part C)

Purpose of the project was to build an exercise yard.

OUACHITA PARISH, LOUISIANA

Year jail facility built -- 1924
Year farm facility built -- unknown
Current capacity (jail and farm) -- 257
Proposed project cost -- a/$896,653
LEAA funds awarded -- $271,300 (part C)

Purpose of the project was to increase capacity by 22 cells, to construct a metal building at the farm for teaching automotive maintenance, and to purchase supplies and equipment.

EAST CARROLL PARISH, LOUISIANA (JAIL)

Year facility built -- 1931

Current capacity -- 39
Proposed project cost -- a/$244,561
LEAA funds awarded -- $88,390 (part C)

Purpose of the project was to install guard corridors, security devices, and all new bunks and to repair plumbing.

EAST CARROLL PARISH, LOUISIANA (FARM)

Year facility built -- 1910
Current capacity -- 70
Proposed project #1 cost -- a/$194,560
LEAA funds awarded -- $71,686 (part C)

Purpose of the project was to expand rehabilitation services at the farm by constructing a metal building and purchasing equipment for vocational course counseling.

Proposed project #2 cost -- a/$40,801
LEAA funds awarded -- $12,345 (part C)

Purpose of the project was to purchase meat-processing equipment to meet State health department requirements.

ST. MARTIN PARISH, LOUISIANA

Year facility built -- 1955
Current capacity -- 56
Proposed project cost -- $70,000
LEAA funds awarded -- $35,000 (part C)

Purpose of the project was to enlarge the existing facility for 20 additional inmates; provide separate space for female, juvenile, and maximum security inmates; provide visiting space; and enlarge the kitchen and dayroom areas.

LEESVILLE CITY, LOUISIANA

Year facility built -- 1910
Current capacity -- 36
Proposed project cost -- $304,995
LEAA funds awarded -- $100,000 (part C)

Purpose of the project was to provide a city jail separate from an unacceptable parish jail by acquiring and renovating a building to meet city needs.

BASTROP COUNTY, TEXAS

Year facility built -- 1974

Current capacity -- 20
Proposed project cost -- $335,940
LEAA funds awarded -- $243,900 (part E)

Purpose of the project was to construct the new jail with innovative modular design.

ATASCOSA COUNTY, TEXAS

Year facility built -- 1915
Current capacity -- 19
Proposed project cost -- $201,822
LEAA funds awarded -- $128,665 (part E)

Purpose of the project was to renovate the jail to provide separation of classes of inmates, single occupancy units, recreation space, a visiting area, and rehabilitation programs.

GILLESPIE COUNTY, TEXAS

Year facility built -- 1975
Current capacity -- 17
Proposed project cost -- $279,840
LEAA funds awarded -- $119,125 (part E)

Purpose of the project was to construct a new jail.

MCLENNAN COUNTY, TEXAS

Year facility built -- 1950
Current capacity -- 104
Proposed project cost -- $91,717
LEAA funds awarded -- $29,890 (part C)
$11,994 (part E)

Purpose of the project was to provide segregation for maximum security inmates, ventilation and air conditioning, and improved food preparation facilities.

CHILDRESS COUNTY, TEXAS

Year facility built -- 1938
Current capacity -- 19
Proposed project cost -- $61,466
LEAS funds awarded -- $37,500 (part E)

Purpose of the project was to increase the capacity, provide segregation for different classes of inmates, improve sanitary facilities, upgrade

kitchen facilities, and provide a recreation room.

a/ We requested LEAA to review the validity of the in-kind match, because the appraised value of the existing jail facility was used to match the LEAA funds. LEAA has concluded that the in-kind match is unallowable based on available data. LEAA has requested the Louisiana State planning agency to review and comment on the apparent overpayment of Federal funds. As of January 1976, the SPA had made no comment.

APPENDIX III

COMPARISON OF CONDITIONS OF JAILS IN RELATION TO DESIRABLE CHARACTERISTICS OUTLINED BY CRIMINAL JUSTICE EXPERTS

APPENDIX III

Inmate Security and Safety

Segregation adequate for

Facility	designed capacity not exceeded	single occupancy cells only	no drunk tank	male/ female	adult/ juvenile	offender classes held	24-hour matron	operable emergency exits	fire extin-guishers	operable individual cell doors
Rhode Island Institution:										
All-male units (3)	1	1(1),0(2)	1	n/a	n/a	1(2),0(1)	n/a	1	1	1
Women's	1	1	1	0	0	1	1	1	1	1
Delaware:										
All-male Institutions (2)	0	0	1	n/a	n/a	1(1),0(1)	n/a	1	1	1
Women's unit (cocorrectional)	1	0	1	1	n/a	0	1	0	0	1
Ohio:										
Licking County	1	0	0	1	0	0	1	0	1	1
Perry County	1	0	0	0	1	0	0	1	1	1
Logan County	1	1	1	1	0	0	0	0	0	0
Shelby County	1	0	1	1	0	0	1	0	1	0
Hamilton County	1	0	1	1	0	0	1	0	1	1
Iowa:										
Dubuque County	1	0	0	1	0	0	1	1	1	1
Kossuth County	1	1	0	1	0	0	1	1	1	1
Monona County	1	0	0	1	0	0	0	0	1	1
Appanoose County	1	0	0	1	1	0	1	1	1	1
Woodbury County	1	0	1	1	1	0	1	1	1	1
Scott County	1	0	0	1	1	0	1	0	0	0
Louisiana:										
Quachita Multiparish Jail	1	0	1	1	0	0	0	1	1	1
Quachita Multiparish Farm	1	n/a	n/a	n/a	n/a	1	n/a	1	0	n/a
East Carroll Parish Jail	1	0	1	0	0	0	0	0	1	1
East Carroll Multiparish Farm	1	n/a	n/a	n/a	n/a	1	n/a	1	1	n/a
St. Martin Parish	1	0	1	0	0	0	0	0	1	1
Leesville City	1	0	1	1	1	0	0	1	1	1
Texas:										
Bastrop County	1	1	1	1	1	0	1	1	0	1
Atascosa County	1	0	1	1	1	0	0	1	0	1
Gillespie County	1	1	0	0	0	0	1	1	1	1
McLennan County	1	0	1	1	n/a	0	1	1	1	1
Childress County	1	0	1	0	1	0	0	0	1	1

Key: 1 - acceptable
0 - unacceptable

APPENDIX III

COMPARISON OF CONDITIONS OF JAILS VISITED IN RELATION TO DESIRABLE CHARACTERISTICS OUTLINED BY CRIMINAL JUSTICE EXPERTS

APPENDIX III

Inmate Comfort and Rehabilitation

Facility	Toilets not in view of dining area	Recreation facilities			In-House medical facilities	Venti-lation	Lighting In Cells		No guard corridors	Space for program
		Indoor	Outdoor	Library			Artificial	Natural		
Rhode Island Institution										
All-Male units (3)	1	1	1	1	1	1	1	1	1(2),0(1)	1
Women's Unit	1	1	1	1	1	1	1	1	1	1
Delaware:										
All-Male institutions(2)	1	1	1	1	1	1(1),0(1)	1	1	1(1),0(1)	1
Women's Unit (cocorrectional)	1	1	1	1	1	1	1	1	1	1
Ohio:										
Licking County	0	0	0	0	0	1	1	0	0	0
Perry County	0	0	0	0	0	1	0	0	0	0
Logan County	0	0	0	0	0	1	1	0	0	0
Shelby County	0	0	0	0	0	1	1	0	0	0
Hamilton County	1	1	1	1	1	1	1	0	0	0
Iowa:										
Dubuque County	0	0	0	0	0	1	1	1	0	1
Koseuth County	0	0	0	0	0	1	1	0	0	0
Monona County	0	0	0	0	0	1	1	1	0	0
Appanoose County	0	0	0	0	0	1	1	0	0	0
Woodbury County	0	0	0	0	0	1	0	0	0	0
Scott County	0	0	1	0	0	0	0	0	0	0
Louisiana:										
Quachita Multiparish Jail	0	1	0	0	1	1	0	1	0	0
Quachita Multiparish Farm	1	1	1	1	0	1	1	1	1	0
East Carroll Parish Jail	0	0	0	0	0	1	1	1	0	0
East Carroll Multiparish Farm	1	1	1	0	0	0	1	1	1	1
St. Martin Parish	0	0	0	0	0	1	1	0	0	0
Leesville City	0	0	0	0	0	1	1	0	1	0
Texas:										
Bastrop County	0	0	0	0	0	1	1	1	1	0
Atascosa County	0	0	1	1	0	1	0	1	0	0
Gillespie County	0	0	0	0	1	1	1	1	1	0
McLennan County	0	0	0	0	1	1	0	0	0	0
Childress County	0	0	0	0	0	1	0	1	0	0

Key: 1 - acceptable
0 - unacceptable

COMPARISON OF CONDITIONS OF JAILS VISITED IN RELATION TO DESIRABLE CHARACTERISTICS OUTLINED BY CRIMINAL JUSTICE EXPERTS

APPENDIX III

	Sanitation													
					Items issued						Cleaned before reissuance			
Facility	Operable in cells: Toilets	Operable in cells: Wash basin	Sanitary showers	Laundry for personal clothing	Soap	Tooth-paste	Razor	Uni-forms	Mat-tress	Pillow	Blanket	Sheet	Pillow case	Towel
Rhode Island institution:														
All-male units (3)	1(2), 0(1)	1(2), 0(1)	1	1	1	1	1	1(2), 0(1)	1	1	1	1	1	1
Women's unit	0	0	1	1	1	1	1	NI	1	1	1	1	1	1
Delaware:														
All-male institutions (2)	1(1), 0(1)	1	1(1), 0(1)	1	1	1	1	1	1	1(1), NI(1)	0	1	1(1), NI(1)	1(1), NI(1)
Women's unit (co-correctional	1	1	1	1	1	1	1	a/NI	1	1	1	1	1	1
Ohio:														
Licking County	1	1	1	0	1	1	1	NI	1	NI	1	NI	NI	1
Perry County	0	1	1	0	1	NI	NI	NI	1	NI	1	NI	NI	1
Logan County	0	0	1	0	1	NI	NI	NI	0	1	1	1	1	1
Shelby County	1	1	1	0	1	NI	NI	NI	1	NI	1	1	NI	1
Hamilton County	0	1	0	1	1	1	1	1	1	NI	1	1	NI	1
Iowa:														
Dubuque County	1	1	1	1	1	1	1	1	1	NI	1	NI	NI	1
Kossuth County	1	1	1	0	1	1	1	1	1	1	1	NI	NI	1
Monona County	1	1	1	0	1	NI	1	NI	1	NI	1	NI	NI	1
Appanoose County	1	1	1	1	1	NI	1	NI	1	1	1	NI	NI	1
Woodbury County	1	1	1	0	1	NI	1	NI	1	NI	1	1	NI	1
Scott County	0	0	0	1	1	1	1	NI	0	NI	0	NI	NI	NI
Louisiana:														
Ouachita Multi-parish jail	1	1	1	1	1	NI	NI	NI	1	NI	1	1	NI	1
Ouachita Multi-parish farm	n/a	n/a	1	1	1	NI	NI	NI	0	1	1	1	1	1
East Carroll parish jail	1	1	0	0	1	NI	NI	NI	1	NI	1	NI	NI	NI
East Carroll Multiparish farm	n/a	n/a	0	1	1	NI	NI	1	1	1	1	1	1	NI
St. Martin parish	1	1	1	0	1	NI	1	1	1	1	1	1	1	1
Leesville City	1	1	1	1	1	NI	NI	NI	1	1	0	0	0	1
Texas:														
Bastrop County	1	1	1	0	1	NI	1	1	1	1	1	1	1	1
Atascosa County	1	1	1	0	1	NI	NI	NI	1	NI	0	NI	NI	NI
Gillespie County	1	1	1	0	1	NI	1	1	1	1	0	NI	NI	1
McLennan County	1	1	1	1	1	NI	1	NI	1	NI	0	NI	NI	1
Childress County	1	1	1	1	1	NI	1	NI	1	NI	0	NI	NI	1

a/Female inmates wear civilian clothing; male inmates are issued uniforms.

Key: 1 = acceptable
0 = unacceptable
NI = not issued

COMPARISON OF CONDITIONS OF JAILS VISITED IN RELATION TO DESIRABLE CHARACTERISTICS OUTLINED BY CRIMINAL JUSTICE EXPERTS

Privacy

Facility	Visiting space (note a)		Privacy for search on entry	No closed circuit TV in living area
	Separate from cell area	Space for private conversations		
Rhode Island institution:				
All-male units (3)	1	1	1	1
Women's unit	1	1	1	1
Delaware:				
All-male institutions (2)	1	1	1	1
Women's unit (co-correctional)	1	1	1	1
Ohio:				
Licking County	0	0	1	1
Perry County	0	0	0	1
Logan County	0	0	0	1
Shelby County	0	0	1	1
Hamilton County	1	0	1	1
Iowa:				
Dubuque County	1	0	1	1
Kossuth County	0	0	1	1
Monona County	1	1	1	1
Appanoose County	0	1	1	1
Woodbury County	1	0	1	0
Scott County	0	0	1	1
Lousiana:				
Ouachita Multi-parish jail	1	1	1	1
Ouachita Multi-parish farm	1	1	n/a	0
East Carroll Parish jail	0	0	0	1
East Carroll Parish farm	1	1	n/a	1
St. Martin Parish	1	0	1	0
Leesville City	0	0	1	1
Texas:				
Bastrop County	1	0	1	0
Atascosa County	1	0	0	1
Gillespie County	1	1	1	1
McLennan County	0	0	1	1
Childress County	0	0	0	1

a/Excludes arrangements for visits with legal counsel.

1 = acceptable
0 = unacceptable

INMATE DEMOGRAPHIC DATA

FOR LOCAL JAILS

Item	Ohio				
	Licking County	Perry County	Logan County	Shelby County	Hamilton County
Capacity	68	21	18	45	363
Sample size (note a)	139	40	95	134	199
	(percentage)				
Type of incarceration:					
Awaiting trial	68.4	82.5	57.9	64.9	92.0
Serving sentence	25.2	17.5	23.2	31.4	0.5
Other	6.4	-	18.9	3.7	7.5
Type of offense:					
Alcohol-related	41.0	52.5	49.5	45.5	3.0
Traffic-related	10.8	2.5	9.5	14.2	1.0
Subtotal	51.8	55.0	59.0	59.7	
Other felonies and misdemeanors	43.2	42.5	24.2	40.3	92.5
Other	5.0	2.5	16.8	-	3.5
Length-of-stay:					
Less than 1 day	43.9	42.5	48.4	42.5	37.2
1 and 2 days	17.3	40.0	26.3	21.7	18.1
3 through 6 days	23.7	12.5	14.7	26.1	16.0
Subtotal	84.9	95.0	89.4	90.3	71.3
7 through 30 days	9.4	2.5	7.4	5.2	10.6
31 through 90 days	3.6	2.5	2.1	3.7	10.6
Over 91 days	2.1	-	-	0.8	7.5
Average length-of-stay (days)	8.6	2.4	3.8	4.5	15.0
Sex:					
Male	84.2	100.0	89.5	93.3	92.5
Female	15.8	-	10.5	6.7	7.5
Age:					
Under 18	2.9	2.5	9.5	1.5	3.0
18 through 29 years	54.0	42.5	41.0	56.0	74.9
30 years and over	42.4	55.0	49.5	42.5	22.1
Unknown	0.7	-	-	-	-
Residence:					
Within county	73.4	90.0	67.0	51.1	82.9
Neighboring county	16.5	10.0	5.3	14.3	6.0
Other	10.1	-	27.7	34.6	11.1

a/Sample size was 10 percent of the prior calendar year inmate population but not less than 40 nor more than 200.

APPENDIX IV

INMATE DEMOGRAPHIC DATA FOR LOCAL JAILS

Item	Iowa					
	Dubuque County	Kossuth County	Woodbury County	Monona County	Appanoose County	Scott County
Capacity	31	4	81	12	18	138
Sample size (note a)	44	40	138	42	40	178
	(percentages)					
Type of incarceration:	68.2	75.0	(b)	61.9	(b)	9.16
Awaiting trial	68.2	75.0	(b)	61.9	(b)	91.6
Serving sentence	31.8	12.5	(b)	16.7	(b)	8.4
Other	-	12.5	(b)	21.4	(b)	-
Type of offense:						
Alcohol-related	25.0	45.0	10.8	19.0	27.5	25.3
Traffic-related	20.5	7.5	8.1	14.3	15.0	14.0
Subtotal	45.5	52.5	18.9	33.3	42.5	39.3
Other felonies and misdemeanors	54.5	45.0	55.8	50.0	57.5	59.0
Other	-	2.5	25.3	16.7	-	1.7
Length-of-stay:						
Less than 1 day	47.7	35.0	32.6	28.6	45.0	55.1
1 and 2 days	34.1	50.0	29.7	40.5	27.5	25.3
3 through 6 days	6.8	7.5	15.9	19.0	7.5	8.4
Subtotal	88.6	92.5	78.2	88.1	80.0	88.8
7 through 30 days	11.4	5.0	15.9	9.5	15.0	6.2
31 through 90 days	-	2.5	2.2	-	2.5	3.9
Over 91 days	-	-	3.7	2.4	2.5	1.1
Average length-of-stay (days)	3.0	2.5	9.9	5.5	6.6	5.2
Sex:						
Male	93.2	90.0	77.5	97.6	97.5	83.7
Female	6.8	10.0	22.5	2.4	2.5	16.3
Age:						
Under 18	6.8	5.0	31.9	28.6	10.0	10.1
18 through 29 years	70.5	40.0	47.8	42.8	75.0	50.6
30 years and over	11.4	55.0	20.3	16.7	15.0	26.4
Unknown	11.3	-	-	11.9	-	12.9
Residence:						
Within county	77.3	70.0	79.0	59.6	82.5	83.7
Neighboring county	4.5	10.0	4.3	19.0	-	1.1
Other	18.2	20.0	16.7	21.4	17.5	15.2

a/ Sample size was 10 percent of the prior calendar year inate population but not less than 40 nor more than 200.

b/ Information was not readily available.

INMATE DEMOGRAPHIC DATA FOR LOCAL JAILS

Item	Louisiana				
	Ouachita Multiparish Prison (note a)	East Carroll Parish Jail	East Carroll Multiparish Fram	St. Martin Parish	Leesville City
Capacity	257	39	70	56	36
Sample size (note b)	200	40	40	148	153
	(percentage)				
Type of incarceration:					
Awaiting trial	81.0	60.0	-	90.5	85.6
Serving sentence	15.5	17.5	100.0	8.1	8.5
Other	3.5	22.5	-	1.4	5.9
Type of offense:					
Alcohol-related	23.0	10.0	22.5	14.8	35.9
Traffic-related	23.0	-	-	7.4	2.0
Subtotal	46.0	10.0	22.5	22.2	37.9
Other felonies and misdemeanors	51.5	70.0	75.0	68.3	51.0
Other	2.5	20.0	2.5	9.5	11.1
Length-of-stay:					
Less than 1 day	63.0	32.5	-	58.1	26.8
1 and 2 days	10.0	30.0	-	20.3	34.0
3 through 6 days	5.0	25.0	-	11.5	22.9
Subtotal	78.0	87.5	-	89.9	83.7
7 through 30 days	8.5	10.0	10.0	8.1	15.7
31 through 90 days	4.0	2.5	22.5	2.0	0.6
Over 91 days	9.5	-	67.4	-	-
Average length-of-stay (days)	24.0	4.0	241.0	3.0	4.0
Sex:					
Male	90.5	85.0	100.0	85.1	91.5
Female	9.5	15.0	-	14.9	8.5
Age:					
Under 18	4.0	17.5	7.5	11.5	17.0
18 through 29 years	55.5	20.0	52.5	49.3	54.9
30 years and over	40.0	30.0	27.5	37.8	25.5
Unknown	0.5	32.5	12.5	1.4	2.6
Residence:					
Within county	64.5	90.0	55.0	54.7	75.8
Neighboring county	8.0	5.0	30.0	31.1	1.3
Other	27.5	5.0	15.0	14.2	22.9

a/ Separate records were not maintained for the jail and farm operated by this parish.

b/ Sample size was 10 percent of the prior calendar year inmate population but not less than 40 nor more than 200.

APPENDIX IV

INMATE DEMOGRAPHIC DATA FOR LOCAL JAILS

Item	Texas				
	Basetrop County	Atascosa County	Gillespie County	McLennan County	Childress County
Capacity	20	19	17	104	19
Sample size (note a)	53	91	40	193	45
	(percentage)				
Type of incarceration:					
Awaiting trial	88.7	95.6	90.0	87.6	95.5
Serving sentence	-	-	-	2.1	4.5
Other	11.3	4.4	10.0	10.3	-
Type of offense:					
Alcohol-related	44.4	55.2	56.1	29.0	40.0
Traffic-related	14.3	10.3	4.9	10.8	20.0
Subtotal	58.7	65.5	61.0	39.8	60.0
Other felonies and misdemeanors	36.5	33.6	29.3	57.0	38.0
Other	4.8	0.9	9.7	3.2	2.0
Length-of-stay:					
Less than 1 day	18.9	71.4	60.0	72.0	37.8
1 and 2 days	58.5	13.2	37.5	8.8	46.7
3 through 6 days	11.3	7.7	2.5	5.7	4.4
Subtotal	88.7	92.3	100.0	86.5	88.9
7 through 30 days	11.3	3.3	-	8.8	4.4
31 through 90 days	-	3.3	-	2.6	4.4
Over 91 dyas	-	1.1	-	2.1	2.3
Average length-of-stay (days)	3.0	5.0	1.0	7.0	7.0
Sex:					
Male	92.5	87.9	92.5	88.1	84.4
Female	7.5	12.1	7.5	11.9	15.6
Age:					
Under 18	5.7	7.7	15.0	7.8	6.7
18 through 29 years	37.7	51.6	45.0	51.3	37.8
30 years and over	54.7	40.7	35.0	40.9	53.3
Unknown	1.9	-	5.0	-	2.2
Residence:					
Within county	66.0	64.8	52.5	75.7	40.0
Neighboring county	11.3	14.3	7.5	7.8	22.2
Other	22.7	20.9	40.0	16.5	37.8

a/ Sample size was 10 percent of the prior calendar year inmate population but not less than 40 no more than 200.

ASSISTANCE SERVICES AVAILABLE AT SELECTED JAILS

Facility	Capacity	Work release	Furlough	Educational release	Vocational Training	Vocational Counseling	Job placement	Education	Alcoholic	Drug abuse	Religious	Social service counseling
Rhode Island institution	728	a/1	0	a/1	a/1	a/1	a/1	a/1	a/1	0	1	1
Delaware:												
All-male institutions (2)	672	1	1	1	1	1	1(1), 0(1)	1	1	1	1	1
Women's unit (co-correctional)	50	1	1	1	0	0	0	1	1	1	1	1
Ohio:												
Licking County	68	0	0	0	0	0	0	0	1	0	1	0
Perry County	21	0	0	0	0	0	0	0	0	0	0	0
Logan County	18	0	0	0	0	0	0	0	0	0	1	0
Shelby County	45	0	0	0	0	0	0	0	0	0	1	1
Hamilton County	363	0	0	0	0	0	0	0	0	0	1	0
Iowa:												
Dubuque County	31	1	0	0	0	0	0	0	1	0	1	0
Kossuth County	4	0	0	0	0	0	0	0	1	0	1	0
Monona County	12	1	0	0	0	0	0	0	1	0	1	0
Appanoose County	18	1	0	0	0	0	0	0	0	0	0	0
Woodbury County	81	1	0	0	0	0	0	0	0	0	0	0
Scott County	138	1	0	0	0	0	0	0	0	0	0	0
Louisiana:												
Ouachita Multi-parish jail	137	0	0	0	0	0	0	0	0	0	1	0
Ouachita Multi-parish farm	120	1	1	0	1	1	0	1	0	0	1	1
East Carroll Parish jail	39	0	0	0	0	0	0	0	0	0	0	0
East Carroll Parish farm	70	0	1	0	1	1	1	1	0	0	1	0
St. Martin Parish	56	1	0	0	0	0	0	0	0	0	1	0
Leesville City	36	0	0	0	0	0	0	0	1	1	1	0
Texas:												
Bastrop County	20	0	0	0	0	0	0	0	0	0	0	0
Atascosa County	19	0	0	0	0	0	0	0	1	1	1	0
Gillespie County	17	0	0	0	0	0	0	0	0	0	0	0
McLennan County	104	0	0	0	0	0	0	0	0	0	1	0
Childress County	19	0	0	0	0	0	0	0	0	0	0	0

a/ Not available to persons awaiting trial.

Key: 1 = acceptable
0 = unacceptable

APPENDIX V

UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C. 20530

FEB 9 1976

Mr. Victor L. Lowe
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

This letter is in response to your request for comments on the draft report titled "Conditions in Local Jails Remain Inadequate Despite Federal Funding for Improvements."

The draft report dramatically points out the seriousness of the "local jail problem" and we agree that the Law Enforcement Assistance Administration (LEAA) should make the upgrading of local jails and the minimizing of their use one of its national priorities. The report provides a generally accurate reflection of the lack of progress in community corrections, the problems associated with acceptance of the regional jail concept, the failure of local jail administrators to identify and utilize existing community resources, and the substandard conditions which exist in many local jails.

A Blue Ribbon Committee was appointed by the LEAA Administrator in June 1975 to assist in the development of an LEAA corrections strategy. The Committee's observations on State and local jail conditions were consistent with those cited in the GAO report. The Committee recognized that jails are physically inadequate, lack services to safeguard the health of prisoners, are overcrowded, provide few, if any, services for inmates, and allow offenders to spend most of their time in idleness. In general, the Committee feels that jail confinement is extremely destructive to the inmate and should be limited to those persons who are

dangerous or who might not otherwise appear for court proceedings. The Committee concluded that discretionary grant monies should be allocated to State, county and municipal jurisdictions to develop a range of pre- and post-trial alternatives to jails and to assist localities in implementing jail standards. LEAA intends to adopt this recommendation. Also, as recommended by the Committee, LEAA intends to make the upgrading of jails and the minimizing of their use one of its national priority program thrusts.

In line with another of the GAO report recommendations, LEAA intends to analyze its position regarding the way local jails should be used in the entire correctional effort. This analysis will, of necessity, include the issue of establishing regional jail facilities, as well as other alternatives such as community-based corrections, which, as pointed out in the report, have not gained widespread acceptance. LEAA will also attempt to develop a funding policy compatible with the objective of making the correctional system more effective at the local or regional level. Consistent with the block grant concept, LEAA does not intend to develop funding policies which favor one method or the other; rather, LEAA will insure that a methodology is developed and implemented that accomplishes desired objectives.

The report also recommends that LEAA establish, in conjunction with the States, minimum standards for physical conditions of local jails and the types of service needs that should be addressed for different types of offenders. We believe this recommendation has considerable merit. In this regard, the study pertaining to desirable characteristics for local jails, which was undertaken by the National Clearinghouse for Criminal Justice Planning and Architecture and cited in the GAO report, was funded by LEAA. In addition, LEAA funded a report of the National Advisory Commission on Criminal Justice Standards and Goals. The Commission's report, issued in January 1973, contains one volume entitled "Corrections." In LEAA's judgment, these efforts provide the cornerstone for development of the standard-setting process. Furthermore, we believe that funding policies can be an effective inducement for States to upgrade physical conditions and seek out community assistance for offenders. Accordingly, LEAA plans to continue directing its funds to support the development of more definitive standards and establish the types of community assistance that jail administrators should seek for offenders.

Like GAO, LEAA believes that the decision to fund (or not fund) should be related to a realistic and comprehensive plan, developed by State and local jurisdictions, which will effectively upgrade jails and minimize their use. Consideration is being given to requiring a detailed plan from communities seeking LEAA block and discretionary funds stating what actions, over a specified period of time, will be taken to bring local jails up to established physical standards.

LEAA plans to make every concerted effort to encourage State formulation of corrections standards. The Crime Control Act, while leaving the selection and implementation of law enforcement programs with the States, imposes certain conditions for the approval of grants with which the SPA's must comply. Section 501 of Title I of the Crime Control Act authorizes LEAA, after appropriate consultation with representatives of States and units of general government, to establish such rules, regulations, and procedures as are necessary to the exercise of its functions, and are consistent with the stated purpose of this Title. Accordingly, LEAA plans to take the steps necessary to upgrade State and local jail conditions. Specifically, LEAA will:

1. Make additional efforts to assure that State and local units receiving Part E Federal funding comply with conditions stated in Part E of the Crime Control Act of 1973 and paragraph 84 of the State Planning Guidelines. The latter paragraph specifies the need to implement advanced standards governing the operations and conditions of State facilities and local jails.

2. Encourage the use and implementation of national jail standards, such as those laid out in the report of the National Advisory Commission on Criminal Justice Standards and Goals.

3. Encourage States currently developing State standards and goals to include standards for the upgrading of jails in their effort; and

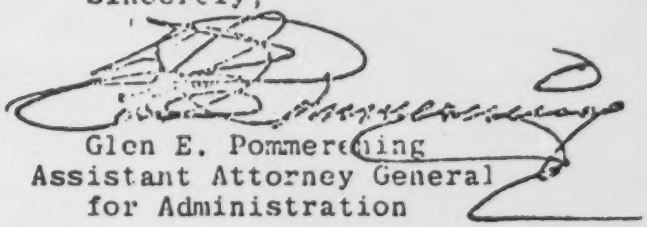
4. Continue to provide the services of the National Clearinghouse for Criminal Justice Planning and Architecture to assist in the planning, development and renovation of jails.

The final recommendation suggests that LEAA institute procedures using resources within the LEAA regional offices to act as a catalyst to encourage State and local officials to seek out community resources to provide assistance services for inmates in local jails. We believe this recommendation has considerable merit. LEAA plans to revise its "Guide for Discretionary Grant Programs" and "State Planning Agency Grants" to encourage State and local officials to seek out community resources with respect to all grants involving assistance services for inmates in local jails.

While LEAA does recognize the leadership role it must play to improve local jail conditions and plans to use every resource at its disposal, we must also face the realities of the framework within which LEAA must operate. The draft report recommendations are heavily based on the assumption that LEAA funding can be used as a strong leverage tool to force implementation of minimum jail standards. Although it is true that some "leverage" to influence the general direction of such programs is available to LEAA through administration of the block grant program, the block grant concept places primary responsibility on the State for the formulation and enforcement of standards for local jails. Also, as the report points out, "LEAA funding represents a limited source for the amount of funding needed for the entire criminal justice system." As a consequence, the matching funds requirement serves to reflect the extent to which local governments desire to or are capable of addressing the local jail problem. If local governments are not committed to improving jail conditions, they simply will not "buy-in" to an LEAA program, particularly if strict standard-setting requirements are conditioned with the grant.

We appreciate the opportunity to comment on the draft report. Should you have any further questions, please feel free to contact us.

Sincerely,



Glen E. Pommerening
Assistant Attorney General
for Administration

APPENDIX VII

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF JUSTICE

RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
ATTORNEY GENERAL:		
Edward H. Levi	Feb. 1975	Present
William B. Saxbe	Jan. 1974	Feb. 1975
Robert H. Bork (acting)	Oct. 1973	Jan. 1974
Elliot L. Richardson	May 1973	Oct. 1973
Richard G. Kleindienst	June 1972	May 1973
Richard G. Kleindienst (acting)	Mar. 1972	June 1972
John N. Mitchell	Jan. 1969	Feb. 1972
ADMINISTRATOR, LAW ENFORCEMENT ASSISTANCE ADMINISTRATION:		
Richard W. Velde	Sept. 1974	Present
Donald E. Santarelli	Apr. 1973	Aug. 1974
Jerris Leonard	May 1971	Mar. 1973
Vacant	June 1970	May 1971
Charles H. Rogovin	Mar. 1969	June 1970

P E R F O R M A N C E A U D I T I N G

Material for Class Participants

Prepared by Dr. Leo Herbert, C.P.A.

Module Number Nine
of
POLICY/PROGRAM ANALYSIS AND
EVALUATION TECHNIQUES Package VI

Developed by

CENTER FOR URBAN AND REGIONAL STUDIES
DIVISION OF ENVIRONMENTAL AND URBAN SYSTEMS
COLLEGE OF ARCHITECTURE AND URBAN STUDIES
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Under Contract to

THE URBAN MANAGEMENT CURRICULUM DEVELOPMENT PROJECT

THE NATIONAL TRAINING AND DEVELOPMENT SERVICE

5028 Wisconsin Avenue, N.W.

Washington, D. C. 20016

Funded by

The Office of the Assistant Secretary for Policy Development

and Research, U.S. Department of Housing and Urban Development

Package VI

Table of Contents

Section I. Basic Assumptions---------- VI.9.1
Course Outline---------- VI.9.2

Section II. Introduction to Performance Auditing---------- VI.9.5
Case II-1. Audit Relationships---------- VI.9.5

Section III. What Is Performance Auditing?---------- VI.9.8
Case III-1. Auditing Objectives--Accountability or Management Control?---------- VI.9.8
Case III-2. The Elements of an Audit---------- VI.9.13
Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles---------- VI.9.14
Scenario 2. Grant Funds Used to Supplant State add Local Funds---------- VI.9.15
Scenario 3. Benefits Could Be Realized by Revising Policies and Practices for Low-Rent Public Housing---------- VI.9.16
Case III-3. The Definitions of the Elements of an Audit---------- VI.9.19

Section IV. Types of Performance Audits---------- VI.9.20
Case IV-1. Characteristics of Audits---------- VI.9.20
Scenario 1. Travel Advances---------- VI.9.23
Scenario 2. Expenditure Control---------- VI.9.24
Scenario 3. Program Costs Not Charged in Accordance with Requirements and Policies------ VI.9.25
Scenario 4. Snow Removal Program---------- VI.9.27
Scenario 5. Uneconomical Package Sizes Used in a Commodity Distribution Program---------- VI.9.28
Scenario 6. State Employment Program---------- VI.9.30

Section V. Audit Objectives and Audit Evidence---------- VI.9.32
Case V-1. Preparing Audit Objectives---------- VI.9.32
Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles---------- VI.9.33
Scenario 2. Grant Funds Used to Supplant State and Local Funds---------- VI.9.34
Scenario 3. Benefits Could Be Realized by Revising Policies and Practices for Low-Rent Public Housing---------- VI.9.36
Scenario 4. Travel Advances---------- VI.9.39
Scenario 5. Expenditure Controls---------- VI.9.40
Scenario 6. Program Costs Not Charged in Accordance with Requirements and Policies------ VI.9.41
Scenario 7. Snow Removal Program---------- VI.9.43
Scenario 8. Uneconomical Package Sizes Used in a Commodity Distribution Program---------- VI.9.44
Scenario 9. State Employment Program---------- VI.9.45

Case V-2. Audit Evidence---------- VI.9.47
Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles---------- VI.9.48
Scenario 2. Benefits Could Be Realized by Revising Policies and Practices for Low-Rent Public Housing---------- VI.9.50
Scenario 3. Uneconomical Package Sizes Used in a Commodity Distribution Program---------- VI.9.56
Scenario 4. State Employment Program---------- VI.9.58

Section VI. The Phases of an Audit---------- VI.9.60
Case VI-1. The Performance Audit (Management Audit) of a Large City Garage---------- VI.9.60
Scenario 1. The Preliminary Survey---------- VI.9.64
Scenario 2. The Review and Testing of Management Control---------- VI.9.67
Scenario 3. The Detailed Examination---------- VI.9.71
Scenario 4. The Report---------- VI.9.75
Case VI-2. A Model for the Phases of an Audit---------- VI.9.77

Section VII. Performance Auditing for Improving Management's Efficiency and Economy---------- VI.9.79
Case VII-1. Increasing Revenue for Self-Assessment Taxes--State of ABC---------- VI.9.79
Scenario 1. The Preliminary Survey---------- VI.9.79
Scenario 2. The Review and Testing of Management Control---------- VI.9.86
Scenario 3. The Detailed Examination---------- VI.9.92
Scenario 4. The Report---------- VI.9.102

Section VIII. Performance Auditing for Determining the Effectiveness of a Program---------- VI.9.105
Case VIII-1. The Effectiveness of the Local Jails Program of the City of X---------- VI.9.105
Scenario 1. The Preliminary Survey---------- VI.9.105
Scenario 2. The Review and Testing of Management Control---------- VI.9.115
Scenario 3. The Detailed Examination---------- VI.9.119
Scenario 4. The Report---------- VI.9.126

Section I -- Basic Assumptions

A. Participants are primarily administrators or possible administrators of a governmental unit--Federal, State, or local--or administrators of a non-profit unit associated with a governmental unit--hospital, nursing home, etc.

B. Cases and scenarios have been prepared for the purpose of developing an understanding of performance auditing not only by top administrators of governmental and non-profit activities but also by administrators at lower levels of responsibility within these activities.

1. For example, developing an understanding of performance audits by city, county, state, and federal managers within their particular areas of responsibility; by hospital administrators, school administrators, or other administrators within their particular areas of responsibility; and also by finance managers, highway managers, recreational managers, purchasing department managers and other functional managers within their particular area of responsibility.

C. Since the participants are administrators, the course has been designed:

1. To give them an understanding of performance auditing and not to make auditors out of them.
   a. They should have a good understanding, however, of what the auditor does and how he does it.
      (1) This would include an understanding of performance audit work of (a) internal auditors, (b) public accountants, (c) federal auditors, and (d) special consultants doing review and evaluation for them.
      (2) They need this understanding because in many instances they will be required to obtain the services of auditors as well as being audited by them.

2. To give them an understanding of how performance auditing can help them improve the economy, efficiency, and effectiveness of their own performance, within the context of their own operations.

3. To give them an understanding of when the auditors have made or have not made a good performance audit.
   a. When they hire public accountants or special consultants to do work for them, or when they have a staff of internal auditors.
   b. When the work has been done by state or federal auditors and the work has a special effect on their activity.
   c. When the auditors recommend increased efficiency or economy, but increased efficiency or economy may have a detrimental effect on the effectiveness of operations.
      (1) Often it costs more, not less, to do an effective job.

Section I -- Basic Assumptions and Introduction to Course -- Course Outline

Hours Time	Hours Cumul.	Section	Subject
1/2	1/2	I	Basic Assumptions and Introduction to Course
1	1-1/2	II	Introduction to Auditing
			Case II - 1. Auditing Relationships
2	3-1/2	III	What Is Auditing?
			Case III - 1. Auditing Objectives -- Accountability or Management Control?
			Case III - 2. The Elements of an Audit
			Audit Scenario III - 2 - 1. Use of Government Owned Rather than Privately Owned Vehicles
			Audit Scenario III - 2 - 2. Grant Funds Used to Supplant State and Local Funds
			Audit Scenario III - 2 - 3. Benefits Could Be Realized by Revising Policies and Practices for Acquiring Existing Structures for Low-Rent Housing
			Case III - 3. The Definitions of the Elements of an Audit
3	6-1/2	IV	Types of Audits
			Case IV - 1. Characteristics of Audits
			Audit Scenario IV - 1 - 1. Travel Advances
			Audit Scenario IV - 1 - 2. Expenditure Control
			Audit Scenario IV - 1 - 3. Program Costs not Charged in Accordance with Requirements and Policies

Hours Time	Hours Cumul.	Section	Subject
			Audit Scenario IV - 1 - 4. Snow Removal Program
			Audit Scenario IV - 1 - 5. Uneconomical Package Sizes Used in a Commodity Distribution Program
			Audit Scenario IV - 1 - 6. State Employment Program
3	9-1/2	V	Audit Objectives and Audit Evidence
			Case V - 1. Preparing Audit Objectives
			Audit Scenarios V - 1, 1 through 9 are the same as those in Section III, Case III - 2, Audit Scenarios 1 through 3 and Section IV, Case IV - 1, Audit Scenarios 1 through 6.
			Case V - 2. Audit Evidence
			Audit Scenarios V - 2, 1 through 4 are the same as Audit Scenarios 1 and 3 in Section III, Case III - 2 and Audit Scenarios 5 and 6 in Section IV, Case IV - 1.
3	12-1/2	VI	Phases of an Audit
			Case VI - 1. The Performance Audit (The Management Audit) of a large City Garage
			Audit Scenario VI - 1 - 1. The Phases of an Audit-The Preliminary Survey
			Audit Scenario VI - 1 - 2. The Phases of an Audit - The Review and Testing of Management Control
			Audit Scenario VI - 1 - 3. The Phases of an Audit - The Detailed Examination
			Audit Scenario VI - 1 - 4. The Phases of an Audit - The Report
3	15-1/2	VII	Performance Auditing for Improving Management's Efficiency and Economy
			Case VII - 1. Increasing Revenues from Self-Assessment Taxes, State of ABC

Hours Time	Hours Cumul.	Section	Subject
			Audit Scenario VII - 1 - 1. Preliminary Survey
			Audit Scenario VII - 1 - 2. Review and Testing of Management Control
			Audit Scenario VII - 1 - 3. The Detailed Examination
			Audit Scenario VII - 1 - 4. The Report
4	19-1/2	VIII	Performance Auditing for Determining the Effectiveness of a Program
			Case VIII - 1 - 1. The Effectiveness of the Local Jails Program in the City of X.
			Audit Scenario VIII - 1 - 1. The Preliminary Survey
			Audit Scenario VIII - 1 - 2. The Review and Testing of Management Control
			Audit Scenario VIII - 1 - 3. The Detailed Examination
			Audit Scenario VIII - 1 - 4. The Report
1/2	20	IX	Wrap-Up and Evaluation Session

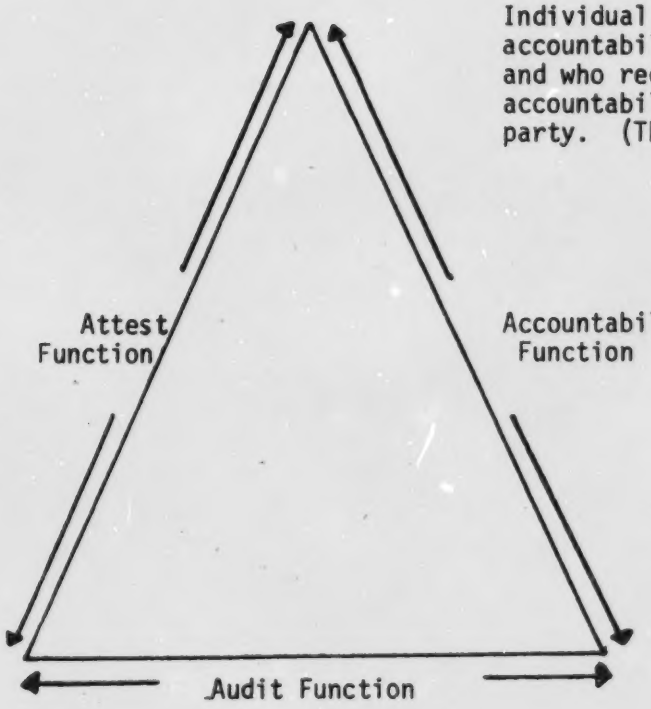
Section II. Introduction to Performance Auditing

Case II - 1. Audit Relationships

The following chart is taken by permission from the book "Performance Auditing" by Leo Herbert.

CHART II - 1

AUDIT RELATIONSHIPS



Entity Requiring Accountability

Individual or entity who requires accountability from second party and who receives a report on that accountability from the first party. (Third Party)

Auditor

Person who examines second party's accountability to third party and attests-to it to third party. (First Party)

Accountable Entity Being Audited

Entity which is accountable to third party and which is examined on that accountability by first party. (Second Party)

The Comptroller General says concerning the purposes of auditing:[1]

A fundamental tenet of a democratic society holds that governments and agencies entrusted with public resources and the authority for applying them have a responsibility to render a full accounting of their activities. This accountability is inherent in the governmental process and is not always specifically identified by legislative provision. This governmental accountability should identify not only the objects for which the public resources have been devoted but also the manner and effect of their application.

Public office carries with it the responsibility to apply resources in an efficient, economical, and effective manner to achieve the purposes for which the resources were furnished. This responsibility applies to all resources, whether entrusted to the public officials by their own constituency or by other levels of government.

A public official is accountable to those who provide the resources he uses to carry out governmental programs. He is accountable both to other levels of government for the resources such levels have provided and to the electorate, the ultimate source of all governmental funds. Consequently he should be providing appropriate reports to those to whom he is accountable. Unless legal restrictions or other valid reasons prevent him from doing so, the auditor should make the results of audits available to other levels of government that have supplied resources and to the electorate.

Auditing is an important part of the accountability process since it provides independent judgments of the credibility of public officials' statements about the manner in which they have carried out their responsibilities. Auditing also can help decision-makers improve the efficiency, economy, and effectiveness of governmental operations by identifying where improvements are needed.

The interests of individual governments in many financially assisted programs often cannot be isolated because the resources applied have been commingled. Different levels of government share common interests in many programs. Therefore an audit should be designed to satisfy both the common and discrete accountability interests of each contributing government.

---

[1] The Comptroller General of the United States. The U.S. General Accounting Office. Standards for Audit of Governmental Organizations, Programs, Activities & Functions. Washington, D. C., pp. 1, 3 and 4. 1974.

Discussion:

1. In your area of responsibility, are you the first party, the second party, or the third party? Do you look at auditing in the same light from all three areas of responsibility?

2. What effect would the lack of independence on the part of the auditor have on the work he does?

3. Do you agree with the Comptroller General as to the responsibilities of the auditor and the purposes of the audit?

4. Do you agree with the Comptroller General as to the responsibilities of the second party?

5. What type of individuals or groups of individuals could the third party represent?

6. What characteristics would you want in a person who audits your accountable activities?

Section III. What Is Performance Auditing?

Case III -- 1. Auditing Objectives -- Accountability or Management Control?

The following information is adapted from Chapter III, "A Conceptual Framework of Auditing" from a book published in 1974 on Auditing to Improve Departments of Education -- The AIDE Project. by the Alabama Department of Education under project staff, Peter L. McMickle and Gene Elrod.

THE NATURE OF AUDITING

What is auditing? Surprisingly, this is a difficult question to answer. Even the experts disagree as there is no "generally accepted" definition of the term. Of course, it is a word - a word that has been used for over two thousand years to describe a certain type of human activity or process. However, during this long period, this activity - like many other human processes - has slowly evolved and changed. Thus, "auditing" is not precisely the same today as it was 500 years ago, or even twenty years ago.

The framework may also be expressed in the form of a comprehensive definition of auditing:

Auditing is an analytical process consisting of preparation, conduct (examination and evaluation), reporting (communication), and settlement. The basic elements of this process are: an independent, competent, and professional auditor who executes the process upon an auditee for an audit recipient. The scope or area of concern can involve matters of the following nature: financial (accounting error, fraud, financial controls, fairness of financial statements, etc.,), and/or compliance (faithful adherence to administrative and legal requirements, policies, regulations, etc.), and/or performance (economy, efficiency, and/or effectiveness of operational controls, management information systems, programs, etc.). The objective or purpose of auditing can be some combination of accountability and management control.

Peter L. McMickle and Gene Elrod, Project Staff. Auditing to Improve Departments of Education -- The AIDE PROJECT. Alabama Department of Education. Montgomery, Alabama. 1974. Chapter III. A Conceptual Framework of Auditing.

THE OBJECTIVE OF AUDITING

The conceptual framework identifies two objectives of auditing: accountability and management control. These two terms appear frequently in the literature of auditing and management. However, their exact definitions are somewhat unsettled.

In order to minimize confusion, we considered choosing other, less ambiguous, terms to describe the objectives of auditing. However, since auditing is so often referred to as an accountability device and a control technique, it appeared advisable to use these familiar terms, but with appropriate clarification. Thus, these terms are stipulatively defined in the following paragraphs.

ACCOUNTABILITY

Most dictionaries define accountability as synonymous with responsibility.

But observation of current usage indicates that accountability generally implies a higher or stronger degree of obligation than does the term responsibility. There is also the implication that a person may be responsible for many things - but formally accountable only for certain things. In other words accountability may, in some instances, be more restricted in scope than responsibility even though the degree of obligation is greater. Hence, one may be responsible for doing a satisfactory job - but formally accountable only for safeguarding the assets.

Some authorities go a step further, stating that responsibility must be "specified and measurable" to be accountability. This appears to be a logical requirement, for it seems unfair to hold a person accountable for vague, unclear, and implied responsibilities. Yet, in reality, managers are sometimes held accountable for certain responsibilities that are only implied and/or difficult to measure. Therefore, for purposes of this discussion, accountability is stipulatively defined as: the state of being accountable - being answered or formally responsible for certain specified or implied performance.

The most basic accountability relationship involves two parties, a higher authority and a subordinate.

This basic relationship is quite common and can arise for various reasons. It may evolve naturally, as when one person finds that he needs assistance to accomplish certain objectives that are beyond his physical ability, e.g., his "span of control". Such systems are most often intentionally created and form the foundation for organization theory and management hierarchies in both the governmental and private sectors. This relation can also exist between groups of individuals and organizations. For example, State agencies may be accountable to Federal agencies relative to their management of Federal grant-in-aids.

Thus, the concept of accountability implies the existence of authority and responsibility. There is the further implication that (1) a person or organization is answerable or formally responsible. There is the further

implication that (1) a person or organization is answerable or formally responsible for certain specified or implied performance, (2) the actual performance will be reviewed, and (3) as a result, appropriate action may be taken by the higher authority.

MANAGEMENT CONTROL

Of these various interpretations of control there are two clear-cut extremes: (1) control used synonymously with management, and (2) control as an inhibiting or restraining influence. The most generally accepted management definition must lie somewhere between these limits.

Therefore, for use in this discussion, management control is stipulatively defined as: to measure or evaluate performance as an aid to management.

AUDITING AS AN ACCOUNTABILITY DEVICE

Historically, the term auditing has been used to refer to those reviews conducted by an independent "auditor" (one who audits) for the primary objective of accountability.

Usually, auditing is not the only accountability device in such situations. Production reports, information from other managers, and general observations, for example, also contribute to the flow of accountability technique for two reasons: (1) the independence and competence of the auditor add credence to the audit (accountability) report, and (2) auditing can provide an added dimension of information - advice and recommendations.

However, as was also shown in the previous chapter, the scope of auditing has expanded in recent years to encompass matters of a performance nature. This extension of the scope of auditing has, in many instances, been a direct result of an expansion of the scope of accountability - both implied and specified.

Within the last decade, there has been a broadening of the scope of implied accountability of managers - particularly in the governmental environment.

The force behind this extension of the scope of accountability in government is an increased awareness on the part of the public, the press, and governmental officials of the need - in fact the necessity - for greater economy, efficiency, and effectiveness of governmental programs and organizations.

This extension of the scope of accountability of governmental managers is not only implied, but in some instances is very clearly specified. For example, local education agency recipients of ESEA Title I grant-in-aids for educationally deprived children are specifically directed in the enabling legislation to adopt:

> . . . effective procedures, including . . . appropriate objective measurements of educational achievement, . . . for evaluating as least annually the effectiveness of the program in meeting the special educational needs of educationally deprived children.

By spelling out acceptable performance in legislation, regulations, or guidelines, governmental authorities have in turn forced extension of the scope of auditing of these programs to include evaluations of such performance. Hence, the auditor in some instances must review performance matters, because acceptable minimum standards of performance accountability are spelled out in the law.

Thus, the scope of auditing as an accountability device has been expanding because accountability has been expanding. However, auditing has also received pressure to expand because of its potential as a management control technique.

AUDITING AS A MANAGEMENT CONTROL TECHNIQUE

Management control, like accountability, also implies a review. The main difference is a matter of emphasis. Accountability implies a review for purposes of supervising or evaluating the subordinate manager. Management control, on the other hand, implies a review for purposes of aiding or assisting both the higher authority (audit recipient) and the subordinate manager (auditee).

Auditors traditionally have made suggestions to management as a by-product or sub-objective of the usual accountability audit. In recent years, however, the potential of auditing as a management control technique has become increasingly recognized. As a result, a number of auditors have been encouraged both by management and through their own professional activities, to extend the scope of their audits and, at the same time, to de-emphasize accountability and to stress or accentuate management control.

There has also been a movement to make auditing in the government environment more management control oriented. Some State auditors, both through appropriately worded audit reports and in their own internal audit guides, have emphasized the positive aspect of aiding management and improving future operations rather than criticizing past actions. Some Federal audit agencies have adopted a similar approach to auditing.

Thus, auditing is increasingly used as a management control technique, and the scope of such audits is expanding because of a growing acceptance of and desire for this kind of auditing on both the part of management and the auditing profession itself.

AUDITING AS AN INSTRUMENT TO PROMOTE BETTER MANAGEMENT

It has been demonstrated that the scope of auditing in many areas is expanding to encompass matters of a management or performance nature.

In this regard, a crucial question is: Can improved management be better accomplished through coercion (accountability) or cooperation (management control)?

It would seem, therefore, that auditing would be more effective instrument for the improvement of management if the objective of auditing was oriented more toward management control instead of accountability. However, accountability must and will continue to be a cornerstone of organizational

systems - particularly those in the governmental environment where public trust is paramount. Also, by its very nature, auditing is irrevocably linked to accountability. Even when an audit report is used primarily for management control at the auditee level, there still exists an environment of accountability - that is, an environment of authority and responsibility. In other words, the auditor reports primarily to the auditee's higher authority. [When an independent examination is (1) for the exclusive benefit of the subordinate manager, (2) solely for management control at the subordinate level, and (3) not associated with accountability, then it is more properly called a management review of service, not an audit.]

Thus, it appears that the very nature of auditing hinders the attainment of optimum auditee cooperation. However, even though auditing is basically an accountability device, it has been demonstrated that the accountability aspect of auditing can often be de-emphasized and the more positive aspect of management control or aid emphasized. Thus, the modern objective of auditing can be viewed as a balance between accountability and management aid.

Discussion:

1. The authors of the above book from which the case is developed ask the question: "Can improved management be better accomplished through coercion (accountability) or cooperation (management control)?" As an administrator or potential administrator what would be your opinion or answer to this question?

2. What would you consider the best means to obtain improved performance? Is auditing one of those means?

3. What do you consider the most important--accountability or management control, in performance auditing?

4. Do you believe auditors understand the distinctions between auditing for accountability and auditing for management control?

Section III -- What Is Performance Auditing?

Case III - 2. The Elements of an Audit.

The following definition of auditing is taken by permission from Leo Herbert's book on "Auditing--Financial, Management and Program."

Auditing is the planning for, the obtaining of, and the evaluating of sufficient relevant, material and competent evidence by an independent auditor on the audit objective of whether an entity's management or employees have or have not accepted and carried out efficiently, effectively, or economically appropriate accounting, management, or operational principles, policies, or standards. From this evidence, the auditor comes to an opinion or conclusion on the objective. He then reports his opinion or conclusion to a third party.

In his definition, Herbert lists three separate and distinct elements the auditor must consider in his examination of the accountable or management control activities of the second party in order to report the results of the examination to a third party. He suggests the following elements: (1) An appropriate standard (appropriate accounting, management, or operational principles, policies, or standards), (2) the action of management or its employees (whether an entity's management or employees have or have not accepted and carried out), and (3) the results of the actions as measured against the standards (efficiently, effectively, or economically).

Discussion:

Following are three adaptations to scenarios of information in reports taken from GAO audits:

1. Identify in each of the scenarios the following three elements:
   a. the standards from which the action is measured
   b. who did or did not carry out the action, and
   c. the results

2. Determine whether these audits are for accountability or management control purposes.

3. Who developed the standards used as a basis for measuring the action? Was it management or the auditor? If the auditor, does he have the capability of developing managerial standards or does he have the responsibility?

Case III -- 2. The Elements of an Audit.

Audit Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles.

Our review of travel procedures at 14 major state agencies showed that the agencies had not been furnished management information on the cost of operating motor pool cars at various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers who drive their own cars on official business.

Our more detailed reviews at the offices of the Highway Department, the Department of Education, and the State Auditor's Office showed that the annual cost of reimbursing high-mileage drivers for official travel exceeded the cost of operating motor pool cars by about $20,000. If the mileage patterns observed were typical, the annual statewide costs of reimbursing high-mileage drivers for official travel would exceed the cost of operating interagency motor pool cars by about $100,000.

As a result of our proposals, the Division of Administration revised the state travel regulations to provide policy guidelines for management to determine (a) when it is beneficial to the State for employees to use their own cars for official business and (b) what reimbursement employees are entitled to if they are authorized to use their cars on official business when such use is for their own personal convenience.

Case III - 2. The Elements of an Audit.

Audit Scenario 2 -- Grant Funds Used to Supplant State and Local Funds.

The Department of Health, Education, and Welfare auditors reported that a State education agency was not complying with the provisions of its Federal grant.

Law and regulation to be complied with

The Elementary and Secondary Education Act should not result in a decrease of State or local funds which would otherwise be available to a project area in the absence of title I funds. Office of Education guidelines state that title I funds:

> "* * * are not to be used to supplant State and local funds which are already being expended in the project areas or which would be expended in those areas if the services in those areas were comparable to those for non-project areas * * *"

Condition found by auditor

The audit of the State Education Agency disclosed a decrease in State and local fiscal effort.

Effect of failure to comply

Title I funds, estimated at $520,750, were used in supplanting State and local funds that were already being spent for services in project areas.

Cause of failure to comply

The State education agency officials advised the auditors that, with the exception of administrative reviews performed by program monitoring officials, no effective means existed to evaluate the comparability of services.

Auditors' recommendations

The State education agency should review other local education agencies in the State to determine whether similar deficiencies existed and, on the basis of its findings, develop and issue policies and procedures to all local education agencies participating in the title I program to insure that similar deficiencies do not recur. The auditors further recommended that the awarding agency determine the allowability of the title I funds ($520,750) used by the local education agency in lieu of State and local funds.

Case III - 2. The Elements of an Audit.

Audit Scenario 3 -- Benefits Could Be Realized by Revising Policies and Practices for Acquiring Existing Structures for Low-Rent Public Housing.

The low-rent housing program is designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. HUD provides financial and technical assistance to LHAs, which develop and/or acquire, own, and operate low-rent public housing projects to accomplish this aim.

To provide low-rent public housing, LHAs use several methods -- conventional construction, turnkey, direct acquisition of existing privately owned dwellings, and leasing.

Use of direct acquisition method does not increase housing supply

GAO reviewed HUD's and LHAs' practices and procedures relating to the direct acquisition method of obtaining existing, occupied standard structures and found that, although the method was expedient, it had certain disadvantages which tended to make it less desirable than other methods.

By using the direct acquisition method, the LHAs increased the supply of low-rent public housing but did not directly help to achieve the national housing goal of increasing the housing supply.

GAO's review of 15 projects in 8 selected cities or metropolitan areas showed that LHAs had expended about $80 million to acquire the projects without increasing the supply of standard housing by a single unit. HUD's analyses of housing-market conditions showed that, in seven of the eight cities, a need for both subsidized and nonsubsidized standard housing existed when these projects were acquired. The LHAs' action, therefore, did not improve the overall condition of the housing market. It appears that, in such cases, the construction of new housing and the rehabilitation of substandard housing would be the preferred method and would use Federal funds more effectively by adding to the supply of standard housing.

GAO proposed that HUD limit its financial assistance to LHAs to the acquisition of privately owned standard housing where the supply of such housing exceeds the demand and terminate the acquisition of existing, occupied, privately owned standard housing which is in the planning or early development stages and use the funds instead to finance the construction of new low-rent public housing projects or to purchase and rehabilitate existing substandard housing.

HUD did not agree because it felt that such a practice would be too restrictive. HUD commented that, despite an overall demand for unsubsidized housing in a community, some structures would not meet the demand for various reasons.

GAO agreed that, if certain standard housing had a high vacancy rate and could be purchased at an acceptable price, acquisition of such housing by an LHA would be beneficial. Of the 15 projects reviewed by GAO, however, all had low vacancy rates.

Acquired units are not being used to house those most in need

GAO's review showed that the acquisition of privately owned standard housing generally had not substantially reduced the number of families or persons living in substandard housing, because many of the occupants of the acquired housing units had previously lived in standard housing. Some of the families occupying the acquired units had incomes exceeding the established limits entitling them to public housing. Also, some persons were occupying units larger than those suggested in HUD's guidelines.

Because only a relatively small number of the occupants of the acquired housing projects included in GAO's review had previously occupied substandard housing, there appeared to be a need for specific standard admission policies to insure that those families or persons most in need are given preference.

GAO suggested that the Congress might wish to require that LHAs give preference for admission to public housing to occupants of private substandard housing over those who are occupying private standard housing.

Hardships to former occupants of acquired properties

The acquisition of privately owned standard housing has provided standard housing to certain low-income families sooner than it could have been provided under the other methods, but it has resulted in (1) hardships to former occupants of acquired projects who were forced to move and (2) loss of tax revenues to local governments. In some cases, the people forced to move were not assisted in relocating, although HUD regulations provided for it. Other displaced occupants were subjected to physical and financial hardships.

GAO recommended that HUD, prior to approving LHAs' acquisition of occupied, privately owned standard housing, require LHAs to adequately demonstrate that housing of comparable quality and rent existed in the area and that adequate relocation assistance would be available for tenants to be displaced.

Because it is awaiting the results of its housing studies, HUD took no action on GAO's recommendation.

Need to insure that prices of acquired properties are reasonable

GAO's review indicated that HUD needed to improve its procedures to provide adequate assurance that the prices of acquired properties are reasonable. GAO recommended that HUD establish appraisal requirements for the direct acquisition method similar to those established for the turnkey method which requires that two independent cost estimates be obtained and provide that the total price be no greater than the average of the cost estimates. Although HUD agreed with this recommendation, it took no action pending the results of the housing studies. (B-114863, Sept. 7, 1972.)

Case III - 3. The Definitions of the Elements of an Audit.

The following definitions of the elements of an audit have been adapted, by permission, from Leo Herbert's book on "Performance Auditing."

Criteria: Any appropriate standards, standards or group of standards which can be used to measure the actions of management, employees, or their delegated agents in any audit situation.

Causes: Actions of management, employees, or their delegated agents which took place or actions which should have taken place in carrying out their assigned responsibilities.

Effects: Results achieved as determined by comparing actions taken (causes) with the appropriate standard (criteria).

In the balance of the course, these three words will be used in lieu of any other words which may have the same meaning, such as standards, actions, and results.

Section IV -- Types of Performance Audits

Case IV - 1. Characteristics of Audits.

The Comptroller General has classified and described audits under the following categories:

1. Financial and compliance--determines (a) whether financial operations are properly conducted, (b) whether the financial reports of an audited entity are presented fairly, and (c) whether the entity has complied with applicable laws and regulations.

   Examinations of financial transactions, accounts, and reports and compliance with applicable laws and regulations shall include sufficient audit work to determine whether:

   a. The audited entity is maintaining effective control over revenues, expenditures, assets, and liabilities.

   b. The audited entity is properly accounting for resources, liabilities, and operations.

   c. The financial reports contain accurate, reliable, and useful financial data and are fairly presented.

   d. The entity is complying with the requirements of applicable laws and regulations.

2. Economy and efficiency--determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure.

   A review of efficiency and economy shall include inquiry into whether, in carrying out its responsibilities, the audited entity is giving due consideration to conservation of its resources and minimum expenditure of effort. Examples of uneconomical practices or inefficiencies the auditor should be alert to include:

a. Procedures, whether officially prescribed or merely followed, which are ineffective or more costly than justified.

b. Duplication of effort by employees or between organizational units.

c. Performance of work which serves little or no useful purpose.

d. Inefficient or uneconomical use of equipment.

e. Overstaffing in relation to work to be done.

f. Faulty buying practices and accumulation of unneeded or excess quantities of property, materials, or supplies.

g. Wasteful use of resources.

Efficiency and economy are both relative terms and it is virtually impossible to give an opinion as to whether an organization has reached the maximum practicable level of either. Therefore it is not contemplated in these standards that the auditor will be called upon to give such an opinion.

3. Program results--determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.

A review of the results of programs or activities shall include inquiry into the results or benefits achieved and whether the programs or activities are meeting established objectives. The auditor should consider:

a. The relevance and validity of the criteria used by the audited entity to judge effectiveness in achieving program results.

b. The appropriateness of the methods followed by the entity to evaluate effectiveness in achieving program results.

c. The accuracy of the data accumulated.

d. The reliability of the results obtained.

Source: The Comptroller General of the United States. Standards for Audit of Governmental Organizations, Programs, Activities & Functions. The United States General Accounting Office. Washington, D.C. 1974. pp. 2, 11, and 12.

Another classification more directly related to performance auditing is that all efficiency and economy audits and all compliance audits which result in more efficient and economical operations are called management audits. All program results audits are called program audits. Both of these types of audits are performance audits. All other types of audits are called financial and fiscal compliance audits and while dealing with the financial performance of management and employees of an organization are often not labeled "performance audits."

Discussion:

1. Classify the following audit scenarios into the following types of performance audits: (a) management audits or (b) program audits.

2. Explain the reasons for your classifications.

3. State the criteria, causes, and effects in each of the audit scenarios.

4. Is there any difference in the type of criteria, causes, and effects between a management audit and a program audit?

Case IV - 1. Characteristics of Audits.

Scenario 1. Travel Advances.

We pointed out that funds for authorized travel were advanced to employees of the X Agency in amounts greater than necessary and reasonable to meet travelers' requirements pending periodic reimbursements, and that certain of these advances were allowed to remain outstanding for extended periods during which no travel was performed.

In a review of travel advances totaling $10,000 at June 30, 19XX, made to 40 central office employees, we found that advances issued to 20 employees were in excess of their needs. These advances ranged from $120 to $500 and totaled $6,600, of which $4,400 was in excess of the travelers' needs. During the fiscal year 19XX, some of these 20 employees did not perform any travel and other employees' travel ranged from 1 3/4 to 61 1/4 days and their travel vouchers averaged from $42 to $147. Our review also revealed that two employees were holding travel advances at June 30, 19XX, although they had performed no travel for 13 and 24 months, respectively.

Adapted from a GAO audit.

Case IV - 1. Characteristics of Audits.

Audit Scenario 2. Expenditure Control.

We reported to the Congress that the Pacific Region of the Y Agency had expended about $267,000 for goods and services which either were unnecessary or were justifiable only in part, considering conditions existing at the time and the very negligible benefits that accured to the Government.

a. A sound/alarm system for the Pacific Region headquarters building in Honolulu was leased for 10 years at an annual rental of about $10,500, or $106,000 for the 10-year period. According to the agency, this procurement was justified by the need for sounding the alarm signal for possible fire, tidal wave, or enemy attack, and for transmitting official messages and background music throughout the building. Inasmuch as (1) the lessor of the sound/alarm system had also installed a fire alarm system in the building and (2) the State of Hawaii had installed a civil defense warning system near the building, we questioned the need for the lease of the sound/alarm system.

b. The Region purchased 148 clothes dryers at a cost of about $12,500 for use by employees housed in Wake Island. Because of inadequate planning, the dryers remained in storage for about a year. An additional $25,000 had to be spent to modify and properly equip the housing in order to use the dryers.

c. On June 29 and 30, 19YY, the Pacific Region placed orders totaling about $15,600 for library books under conditions indicating that the principal objective was to obligate available funds prior to the end of the fiscal year rather than to order books for which there was real or urgent need.

d. Numerous other purchases-totaling about $46,000-were made at the end of fiscal years 19XX and 19YY, the necessity of which appeared questionable.

e. Various items of equipment and supplies for major repairs were purchased for Canton Island at a cost of about $27,000, even though complete phase-out of the installation had been under consideration for sometime.

f. The Pacific Region incurred costs of over $30,000 directly related to ceremonies dedicating new facilities at three locations. We questioned whether the dedication ceremonies provided benefits to the Government commensurate with their costs.

Source: Adapted from a GAO audit.

Case IV - 1. Characteristics of Audits

Audit Scenario 3. Program Costs not Charged in Accordance with Requirements and Policies.

The Department of Housing and Urban Development auditors found that a City Demonstration Agency (CDA) was not making office space payments in accordance with an adopted cost allocation plan.

Requirements to be complied with

The city developed a cost allocation plan under the provisions of OMB Circular A-87 and HEW Guide OASO-8 and implemented this plan for charges to all city departments effective September 1, 1971. The plan provides for the computation of space costs (buildings and capital improvements) allocated to the various city departments (which includes CDA) on straight-line depreciation at an annual rate of 2.5 percent (40-year life).

Before adopting the cost allocation plan, the city's policy was to establish rental rates on comparable local space rates.

The cost eligibility criteria in CDA Letter No. 8, part II, requires consistent application of the city's accounting policies and procedures for costs charged to the program.

Condition found by the auditors

CDA occupies a city-owned building consisting of 4,180 square feet. The city determined the monthly local rental rates for comparable space as 20 cents a square foot without utilities and janitorial services and 30 cents a square foot with those services.

Utilities and janitorial services for the building were paid directly by CDA. The monthly rental payments by CDA to the city were properly made through August 31, 1971, at $836 (4,180 sq. ft. at $0.20).

However, CDA did not revise the monthly rental payments to conform with the city's cost allocation plan that became effective September 1, 1971.

Source: The Comptroller General of the United States. Examples of Findings from Governmental Audits. The United States General Accounting Office. Washington, D.C., 1973. pp. 6 and 7.

Effect of noncompliance with requirements

As a result of not revising the rental rate to conform with the cost allocation plan effective September 1, 1971, CDA charged the program with an excess of $17,235.38 from September 1, 1971, through July 31, 1972.

CDA agreed that payments to the city for office space should be consistent with the city's cost allocation plan and that the excess charge of $17,235.38 was an improper program cost.

Auditors' recommendations

The auditors recommended that the Area Office Director:

1. Consider the excess charges of $17,235.38 as ineligible program costs and insure that CDA removes the amount from recorded costs by obtaining a refund from the city.

2. Require and insure that CDA charges office space after July 31, 1972, in accordance with the city's cost allocation plan.

Case IV - 1. Characteristics of Audits.

Audit Scenario 4. Snow Removal Program.

A State auditor found that the State's snow and ice removal program was not accomplishing its objectives because legislation made the State department of transportation's operations difficult.

Goal of the program

The commissioner of the State department of transportation is responsible for removing ice and snow from State roads.

Condition found by the auditor

Article 12 of the Highway Law authorizes the commissioner of the department of transportation to contract with counties for removing snow and ice on State roads. The statute also permits counties to select sections of State roads to either plow, sand, or apply other abrasives or chemicals. The department of transportation is obligated to service the remaining road mileage. This feature of the legislation is referred to as the "first preference" clause.

Effect of not meeting the goals

Under the first-preference clause, counties have elected to service one section of State highways but not an adjoining section and resume service at another point on the road. This skip-patch-work operational pattern often results in State roads that have not been properly cleared of ice and snow. A county crew may spread salt on one portion of the State's highway only to have it removed later by the State's plow crews. Also, the State's work crews may not be able to plow or sand sections of highways until the county has serviced its portions.

Cause which contributed to failure to meet the goal

The first-preference clause of the Highway Law is permitting counties too much flexibility in location, amount of mileage selected, and in type of service performed. As a result, the department of transportation is unable to do adequate long-range planning for equipment purchases and staffing work forces.

This report contained no recommendations. However, the State's first-preference clause should obviously be amended.

Source: Ibid., pp. 24-25.

Case IV - 1. Characteristics of Audits.

Audit Scenario 5. Uneconomical Package Sizes Used in a Commodity Distribution Program.

In an audit of the Commodity Distribution Program of the Department of Agriculture, GAO reported that savings could be realized if larger package sizes of commodities are used when possible.

Criteria used to measure efficiency and economy

The Department of Agriculture's instructions to State distribution agencies require that, to the extent practicable, commodities be donated to schools and institutions in the most economical size packages. When commodities are available in packages of more than one size, the instructions require that State agencies requisition the commodities to the maximum extent practicable, in large-size packages--such as 50-pound containers --for schools and institutions.

Conditions found by auditors

In seven States covered by the review, distributing agencies were requisitioning foodstuffs for large users in small-size packages instead of large-size packages.

Effect on the conditions

A substantial part of the additional costs of providing flour, shortening, and nonfat dry milk in small containers to schools and institutions could be saved. GAO estimated that, nationwide, for fiscal year 1970 these additional costs totaled about $1.6 million.

Cause of the situation

Agriculture regional officials said that, although they encouraged State distributing agencies to requisition commodities in the most economical size package practicable, they had not questioned the propriety of State agencies' requesting commodities in small-size packages for schools and institutions and that they had not required the agencies to justify such requests because they believed the agencies were making the proper determinations as to package sizes.

Auditors' recommendations

In view of the savings available by acquiring commodities in large-size packages, GAO recommended that Agriculture take appropriate action to have

regional offices vigorously enforce the requirement that State agencies requisition commodities--particularly, flour, vegetable shortening, and nonfat dry milk--in the most economical size packages practicable. GAO recommended also that State agencies be required to justify, when necessary, the requisitioning of the commodities in small-size packages for schools and institutions.

Source: Ibid., pp. 19-20.

Case IV - 1. Characteristics of Audits.

Audit Scenario 6. State Employment Program.

GAO reported this situation where the objectives of a State employment program were not realized.

Goal of the program

The Department of Labor's Concentrated Employment Program (CEP) was designed to combine, under one sponsor and in a single contract with one funding source, all manpower training and other services necessary to help persons move from unemployability and dependency to self-sufficiency. CEP seeks to accomplish this objective among persons in a designated target area by (1) making intensive outreach efforts to bring persons into work-training programs; (2) presenting a variety of job-training opportunities to applicants; (3) providing such supportive services as day care for children, transportation, and health care; and (4) placing applicants in jobs.

Condition found by the auditor

From December 1968 through February 1970, of the 6,732 persons enrolled in the program, 3,333 received some training or work experience and 2,586 were placed in jobs. About one-half of those placed in jobs, however, did not receive any orientation, training, or work experience. Often they were limited to the same types of low-skill jobs they held before joining the program.

Many placements were only temporary. Only 56 percent of the persons placed were employed 6 months later. Many had changed jobs during the 6-month period.

Many enrollees were placed in jobs requiring similar or lower level skills than those required in previous occupations. Only about one-half of the jobs increased the wages employees were receiving before entering the program.

Job placement was not always related to the type of training an enrollee received. For example, a person trained as a welder was placed as a janitor, an offset printer as a mail clerk, and an automobile mechanic as a maintenance man.

Effect of not meeting the goals

About $14 million was spent on CEP in the Mississippi Delta from June 1967 through December 1971.

Cause which contributed to failure to meet the goal

CEP's effectiveness was hindered by

--economic slowdown which closed or cut back operations of some companies in the area,

--the special nature of the disadvantaged residents of the area--minority group farm-workers accustomed to seasonal employment,

--a stagnant economy,

--an insufficient labor demand,

--a labor force consisting largely of black farm-workers without necessary educational and vocational skills, and

--the large area and widely dispersed population that the program was trying to reach.

Increased mechanization has displaced many farm-workers in the traditionally agricultural delta area. New job opportunities have been scarce because industries have been slow to come into the delta and available jobs have required skills which enrollees do not have and cannot obtain reasonably.

Auditors' recommendations

The Congress is currently considering measures that will seek to revitalize the economy and increase job opportunities in such rural areas as the Mississippi Delta. The Secretary of Labor should try to improve the effectiveness of CEP by insuring that skill training and other manpower services are provided with due regard to the capabilities and needs of program participants and available job opportunities and by making all possible use of work experience programs and other subsidized employment, such as public service jobs funded under the Emergency Employment Act of 1971, for those participants who cannot be placed readily in jobs.

Section V -- Audit Objectives and Audit Evidence

A. Audit Objectives

Case V - 1. Preparing Audit Objectives

1. By this time, the student has found that each audit conclusion has three essential elements--criteria, causes, and effects. These three elements are the foundation for whatever the auditor finds in his audit, but are not necessarily everything reported to the third party. For, the auditor often provides background data and scope of audit information to the reader to let him know more about the conditions pertaining to the conclusion of the audit. And, he also may recommend certain actions which should be made. The basic audit conclusion, however, is always composed of the three essential elements.

The auditor cannot reach a conclusion from evidence unless he has fairly specific guidelines pertaining to the nature of what he is to audit. For he should only gather evidence relating to the specific objectives of the audit. Therefore, the audit objective is a question or a statement at the start of the detailed examination concerning the end results expected. The evidence gathered will allow the auditor to reach a conclusion on the statement or to answer the question.

2. Eachaudit, then must have a question or statement concerning the desired expectations in order for the auditor to gather evidence on that question or statement. This statement or question is called the audit objective.

3. The audit objective must be stated before evidence can be gathered, since evidence allows the auditor to come to a conclusion on the audit objective.

This statement of the audit objective will include the same three elements as found in the audit conclusion--criteria, causes, and effects.

4. The first three cases in Section V are taken from the three audit scenarios in Case III - 2 in Section III. They will illustrate the preparation of audit objectives in order for the participant to see how an audit objective is stated.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles

Audit Scenario 1 of Case III -- 2 was stated as follows:

Our review of travel procedures at 14 major state agencies showed that the agencies had not been furnished management information on the cost of operating motor pool cars at various mileage levels and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers who drive their own cars on official business.

Our more detailed reviews at the offices of the Highway Department, the Department of Education, and the State Auditor's Office showed that the annual cost of reimbursing high-mileage drivers for official travel exceeded the cost of operating motor pool cars by about $20,000. If the mileage patterns observed were typical, the annual statewide costs of reimbursing high-mileage drivers for official travel would exceed the cost of operating interagency motor pool cars by about $100,000.

As a result of our proposals, the Division of Administration revised the state travel regulations to provide policy guidelines for management to determine (a) when it is beneficial to the State for employees to use their own cars for official business and (b) what reimbursement employees are entitled to if they are authorized to use their cars on official business when such use is for their own personal convenience.*

Before gathering detailed evidence during the audit, the auditor would have stated his audit objective somewhat as follows:

In their payments for travel by high-mileage drivers, have the Highway Department, the Department of Education, and the State Auditor's Office paid (causes) at least $10,000 more than they would have (effects) if they had used motor pool vehicles when motor pool vehicles cost less to operate than privately owned cars (criteria)?

---

* Adapted from a governmental audit.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 2 -- Grant Funds Used to Supplant State and Local Funds

The Department of Health, Education, and Welfare auditors reported that a State education agency was not complying with the provisions of its Federal grant.

Law and regulation to be complied with

The Elementary and Secondary Education Act should not result in a decrease of State or local funds which would otherwise be available to a project area in the absence of title I funds. Office of Education guidelines state that title I funds:

> "* * * are not to be used to supplant State and local funds which are already being expended in the project areas or which would be expended in those areas if the services in those areas were comparable to those for non-project areas * * *"

Condition found by auditor

The audit of the State Education Agency disclosed a decrease in State and local fiscal effort.

Effect of failure to comply

Title I funds, estimated at $520,750, were used in supplanting State and local funds that were already being spent for services in project areas.

Cause of failure to comply

The State education agency officials advised the auditors that, with the exception of administrative reviews performed by program monitoring officials, no effective means existed to evaluate the comparability of services.

Auditors' recommendations

The State education agency should review other local education agencies in the State to determine whether similar deficiencies existed and, on the basis of its findings, develop and issue policies and procedures to all local education agencies participating in the title I program to insure that similar deficiencies do not recur. The auditors further recommended that the awarding agency determine the allowability of the title I funds ($520,750) used by the local education agency in lieu of State and local funds.

Before starting to gather detailed evidence on this audit, the auditor would have stated his audit objective somewhat as:

> Is the State Education Department complying (causes) within $250,000 (effects) of the provision of the Office of Education guidelines which state that the State and local subdivisions should not use Title I funds to supplant State or local funds which would otherwise be available in the absence of Title I funds (criteria)?

You may have noticed that the effects are shown in dollar amounts that are not exactly the same as the final figure. Significance of effects is a very important part of an audit. In each of these economy and efficiency, audits the significance of the effects can be measured in dollar values. So an amount which is the minimum to be considered significant must be shown in the objective.

In the case of some program audits, the significance of the effects often has to be measured in some manner other than dollar amounts. The following Scenario III from Case III-2 illustrates this point. The Scenario states:

Souce: The Comptroller General of the United States. Examples of Findings from Governmental Audits. The United States General Accounting Office Washington, D.C. 1973. pp.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 3 -- Benefits Could Be Realized by Revising Policies and Practices for Acquiring Existing Structures for Low-Rent Public Housing.

The low-rent housing program is designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. HUD provides financial and technical assistance to LHAs, which develop and/or acquire, own, and operate low-rent public housing projects to accomplish this aim.

To provide low-rent public housing, LHAs use several methods -- conventional construction, turnkey, direct acquisition of existing privately owned dwelling, and leasing.

Use of direct acquisition method does not increase housing supply

GAO reviewed HUD's and LHAs' practices and procedures relating to the direct acquisition method of obtaining existing, occupied standard structures and found that, although the method was expedient, it has certain disadvantages which tended to make it less desirable than other methods.

By using the direct acquisition method, the LHAs increased the supply of low-rent public housing but did not directly help to achieve the national housing goal of increasing the housing supply.

GAO's review of 15 projects in 8 selected cities or metropolitan areas showed that LHAs had expended about $80 million to acquire the projects without increasing the supply of standard housing by a single unit. HUD's analyses of housing-market conditions showed that, in seven of the eight cities, a need for both subsidized and nonsubsidized standard housing existed when these projects were acquired. The LHAs' action, therefore, did not improve the overall condition of the housing market. It appears that, in such cases, the construction of new housing and the rehabilitation of substandard housing would be the preferred method and would use Federal funds more effectively by adding to the supply of standard housing.

GAO proposed that HUD limit its financial assistance to LHAs to the acquisition of privately owned standard housing where the supply of such housing exceeds the demand and terminate the acquisition of existing, occupied, privately owned standard housing which is in the planning or early development stages and use the funds instead to finance the construction of new low-rent public housing projects or to purchase and rehabilitate existing substandard housing.

HUD did not agree because it felt that such a practice would be too restrictive. HUD commented that, despite an overall demand for unsubsidized housing in a community, some structures would not meet the demand for various reasons.

GAO agreed that, if certain standard housing had a high vacancy rate and could be purchased at an acceptable price, acquisition of such housing by an LHA would be beneficial. Of the 15 projects reviewed by GAO, however, all had low vacancy rates.

Acquired units are not being used to house those most in need

GAO's review showed that the acquisition of privately owned standard housing generally had not substantially reduced the number of families or persons living in substandard housing, because many of the occupants of the acquired housing units had previously lived in standard housing. Some of the families occupying the acquired units had incomes exceeding the established limits entitling them to public housing. Also, some persons were occupying units larger than those suggested in HUD's guidelines.

Because only a relatively small number of the occupants of the acquired housing projects included in GAO's review had previously occupied substandard housing, there appeared to be a need for specific standard admission policies to insure that those families or persons most in need are given preference.

GAO suggested that the Congress might wish to require that LHAs give preference for admission to public housing to occupants of private substandard housing over those who are occupying private standard housing.

Hardships to former occupants of acquired properties

The acquisition of privately owned standard housing has provided standard housing to certain low-income families sooner than it could have been provided under the other methods, but it has resulted in (1) hardships to former occupants of acquired projects who were forced to move and (2) loss of tax revenues to local governments. In some cases, the people forced to move were not assisted in relocating, although HUD regulations provided for it. Other displaced occupants were subjected to physical and financial hardships.

GAO recommended that HUD, prior to approving LHAs' acquisiton of, occupied, privately owned standard housing, require LHAs to adequately demonstrate that housing of comparable quality and rent existed in the area and that adequate relocation assistance would be available for tenants to be displaced.

Because it is awaiting the results of its housing studies, HUD took no action on GAO's recommendation.

Need to insure that prices of acquired properties are reasonable

GAO's review indicated that HUD needed to improve its procedures to provide adequate assurance that the prices of acquired properties are reasonable. GAO recommended that HUD establish appraisal requirements for the direct acquisition method similar to those established for the turnkey method which requires that two independent cost estimates be obtained and provide that the total price be no greater than the average of the cost estimates. Although HUD agreed with this recommendation, it took no action pending the results of the housing studies. (B-114863, Sept. 7, 1972.)

The audit objective would have been stated somewhat as follows:

Have national and local officials and employees of HUD and officials and employees of 8 local housing authorities made available to low income families decent, safe, and sanitary dwelling (causes) thus substantially accomplishing the goal of the low-rent housing program (effects) by increasing the national housing supply through the direct acquisition method, by substantially reducing the number of persons living in sub-standard housing, by providing standard housing to low income families without resulting in hardships to former occupants or to local governments by loss of tax revenue, and by acquiring property at a reasonable cost (criteria).

In the measurement of the accomplishment of the goals, the auditor is determining his measure of significance with the use of some word such as substantially. He could not expect the agencies to absolutely accomplish the goal. Neither could he say they accomplished the goal if they did nothing towards the accomplishment. What he wants is some measure that would tell him that the agency has or has not essentially accomplished the goal.

Required:

Prepare statements of audit objectives for the following six audit scenarios, Scenarios 4 through 9. These scenarios are the same as those in Case IV - 2, so some of the analytical work done in preparing for the discussion on the audit scenarios for that case can be used as a basis to start preparing audit objectives for these scenarios.

130

Source: Adapted from a GAO audit.

Case V -- 1. Preparing Audit Objectives

Audit Scenario 4. Travel Advances.

We pointed out that funds for authorized travel were advanced to employees of the X Agency in amounts greater than necessary and reasonable to meet travelers' requirements pending periodic reimbursements, and that certain of these advances were allowed to remain outstanding for extended periods during which no travel was performed.

In a review of travel advances totaling $10,000 at June 30, 19XX, made to 40 central office employees, we found that advances issued to 20 employees were in excess of their needs. These advances ranged from $120 to $500 and totaled $6,600, of which $4,400 was in excess of the travelers' needs. During the fiscal year 19XX, some of these 20 employees did not perform any travel and other employees' travel ranged from 1 3/4 to 61 1/4 days and their travel vouchers averaged from $42 to $147. Our review also revealed that two employees were holding travel advances at June 30, 19XX, although they had performed no travel for 13 and 24 months, respectively.

Source: Adapted from a GAO audit.

Case V -- 1. Preparing Audit Objectives

Audit Scenario 5. Expenditure Controls.

We reported to the Congress that the Pacific Region of the Agency has expended about $267,000 for goods and services which either were unnecessary or were justifiable only in part, considering conditions existing at the time and the very negligible benefits that accrued to the Government.

a. A sound/alarm system for the Pacific Region headquarters building in Honolulu was leased for 10 years at an annual rental of about $10,600 or $106,000 for the 10-year period. According to the agency, this procurement was justified by the need for sounding the alarm signal for possible fire, tidal wave, or enemy attack, and for transmitting official messages and background music throughout the building. Inasmuch as (1) the lessor of the sound/alarm system has also installed a fire alarm system in the building and (2) the State of Hawaii had installed a civil defense warning system near the building, we questioned the need for the lease of the sound/alarm system.

b. The Region purchased 148 clothes dryers at a cost of about $12,500 for use by employees housed in Wake Island. Because of inadequate planning, the dryers remained in storage for about a year. An additional $25,000 had to be spent to modify and properly equip the housing in order to use the dryers.

c. On June 29 and 30, 19XX, the Pacific Region placed orders totaling about $15,600 for library books under conditions indicating that the principal objective was to obligate available funds prior to the end of the fiscal year rather than to order books for which there was real or urgent need.

d. Numerous other purchases - totaling about $46,000 - were made at the end of fiscal years 19XX and 19XX, the necessity of which appeared questionable.

e. Various items of equipment and supplies for major repairs were purchased for Canton Island at a cost of about $27,000, even though complete phase-out of the installation had been under consideration for sometime.

f. The Pacific Region incurred costs of over $30,000 directly related to ceremonies dedicating new facilities at three locations. We questioned whether the dedication ceremonies provided benefits to the Government commensurate with their costs.

Source: Adapted from a GAO audit.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 6. Program Costs not Charged in Accordance with Requirements and Policy.

The Department of Housing and Urban Development auditors found that a City Demonstration Agency (CDA) was not making office space payments in accordance with an adopted cost allocation plan.

Requirements to be complied with

The city developed a cost allocation plan under the provisions of OMB Circular A-87 and HEW Guide OASO-8 and implemented this plan for charges to all city departments effective September 1, 1971. The plan provides for the computation of space costs (buildings and capital improvements) allocated to the various city departments (which includes CDA) on straight-line depreciation at an annual rate of 2.5 percent (40-year life).

Before adopting the cost allocation plan, the city's policy was to establish rental rates on comparable local space rates.

The cost eligibility criteria in CDA Letter No. 8, Part II, requires consistent application of the city's accounting policies and procedures for costs charged to the program.

Condition found by the auditors

CDA occupies a city-owned building consisting of 4,180 square feet. The city determined the monthly local rental rates for comparable space as 20 cents a square foot without utilities and janitorial services and 20 cents a square foot with those services.

Utilities and janitorial services for the building were paid directly by CDA. The monthly rental payments by CDA to the city were properly made through August 31, 1971, at $836 (4,180 sq. ft. at $0.20).

However, CDA did not revise the monthly rental payments to conform with the city's cost allocation plan that became effective September 1, 1971.

Effect of noncompliance with requirements

As a result of not revising the rental rate to conform with the cost allocation plan effective September 1, 1971, CDA charged the program with an excess of $17,235.38 from September 1, 1971, through July 31, 1972.

CDA agreed that payments to the city for office space should be consistent with the city's cost allocation plan and that the excess charge of $17,235.38 was an improper program cost.

Auditors' recommendations

The auditors recommend that the Area Office Director:

1. Consider the excess charges of $17,235.38 as ineligible program costs and insure that CDA removes the amount from recorded costs by obtaining a refund from the city.

2. Require and insure that CDA charges office space after July 31, 1972, in accordance with the city's cost allocation plan.

Source: The Comptroller General of the United States. Examples of Findings from Governmental Audits. The United States General Accounting Office. Washington, D.C. 1973. pp.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 7. Snow Removal Program.

A State auditor found that the State's snow and ice removal program was not accomplishing its objectives because legislation made the State department of transportation's operations difficult.

Goal of the program

The commissioner of the State department of transportation is responsible for removing ice and snow from State roads.

Condition found by the auditor

Article 12 of the Highway Law authorizes the commissioner of the department of transportation to contract with counties for removing snow and ice on State roads. The statute also permits counties to select sections of State roads to either plow, sand, or apply other abrasives or chemicals. The department of transportation is obligated to service the remaining road mileage. This feature of the legislation is referred to as the "first preference" clause.

Effect of not meeting the goals

Under the first-preference clause, counties have elected to service one section of State highways but not an adjoining section and resume service at another point on the road. This skip-patch-work operational pattern often results in State roads that have not been properly cleared of ice and snow. A county crew may spread salt on one portion of the State's highway only to have it removed later by the State's plow crews. Also, the State's work crews may not be able to plow or sand sections of highways until the county has serviced its portions.

Cause which contributed to failure to meet the goal

The first-preference clause of the Highway Law is permitting counties too much flexibility in location, amount of mileage selected, and in type of service performed. As a result, the department of transportation is unable to do adequate long-range planning for equipment purchases and staffing work forces.

This report contained no recommendations. However, the State's first-preference clause should obviously be amended.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 8. Uneconomical Package Sizes Used in a Commodity Distribution Program.

In an audit of the Commodity Distribution Program of the Department of Agriculture, GAO reported that savings could be realized if larger package sizes of commodities are used when possible.

Criteria used to measure efficiency and economy

The Department of Agriculture's instructions to State distribution agencies require that, to the extent practicable, commodities be donated to schools and institutions in the most economical size packages. When commodities are available in packages of more than one size, the instructions require that State agencies requisition the commodities to the maximum extent practicable, in large-size packages -- such as 50 - pound containers -- for schools and institutions.

Conditions found by auditors

In seven States covered by the review, distributing agencies were requisitioning foodstuffs for large users in small-size packages instead of large-size packages.

Effect of the Conditions

A substantial part of the additional costs of providing flour, shortening, and nonfat dry milk in small containers to schools and institutions could be saved. GAO estimated that, nationwide, for fiscal year 1970 these additional costs totaled about $1.6 million.

Cause of the situation

Agriculture regional officials said that, although they encouraged State distributing agencies to requisition commodities in the most economical size package practicable, they had not questioned the propriety of State agencies' requesting commodities in small-size packages for schools and institutions and that they had not required the agencies to justify such requests because they believed the agencies were making the proper determinations as to package sizes.

Auditors' recommendations

In view of the savings available by acquiring commodities in large-size packages, GAO recommended that Agriculture take appropriate action to have regional offices vigorously enforce the requirement that State agencies requisition commodities--particularly, flour, vegetable shortening, and nonfat dry milk--in the most economical size packages practicable. GAO recommended also that State agencies be required to justify, when necessary, the requisitioning of the commodities in small-size packages for schools and institutions.

Case V -- 1. Preparing Audit Objectives.

Audit Scenario 9. State Employment Program.

GAO reported this situation where the objectives of a State employment program were not realized.

Goal of the program

The Department of Labor's Concentrated Employment Program (CEP) was designed to combine, under one sponsor and in a single contract with one funding source, all manpower training and other services necessary to help persons move from unemployability and dependency to self-sufficiency. CEP seeks to accomplish this objective among persons in a designated target area by (1) making intensive outreach efforts to bring persons into work-training programs; (2) presenting a variety of job-training opportunities to applicants; (3) providing such supportive services as day care for children, transportation, and health care; and (4) placing applicants in jobs.

Condition found by the auditor

From December 1968 through February 1970, of the 6,732 persons enrolled in the program, 3,333 received some training or work experience and 2,586 were placed in jobs. About one-half of those placed in jobs, however, did not receive any orientation, training, or work experience. Often they were limited to the same types of low-skill jobs they held before joining the program.

Many placements were only temporary. Only 56 percent of the persons placed were employed 6 months later. Many had changed jobs during the 6-month period.

Many enrollees were placed in jobs requiring similar or lower level skills than those required in previous occupations. Only about one-half of the jobs increased the wages employees were receiving before entering the program.

Job placement was not always related to the type of training an enrollee received. For example, a person trained as a welder was placed as a janitor, an offset printer as a mail clerk, and an automobile mechanic as a maintenance man.

Effect of not meeting the goals

About $14 million was spent on CEP in the Mississippi Delta from June 1967 through December 1971.

Cause which contributed to failure to meet the goal

CEP's effectiveness was hindered by

-- economic slowdown which closed or cut back operations of some companies in the area,

-- the special nature of the disadvantaged residents of the area -- minority group farmworkers accustomed to seasonal employment,

-- a stagnant economy,

-- an insufficient labor demand,

-- a labor force consisting largely of black farmworkers without necessary educational and vocational skills, and

-- the large area and widely dispersed population that the program was trying to reach.

Increased mechanization has displaced many farmworkers in the traditionally agricultural delta area. New job opportunities have been scarce because industries have been slow to come into the delta and available jobs have required skills which enrollees do not have and cannot obtain reasonable.

Auditors' recommendations

The Congress is currently considering measures that will seek to revitalize the economy and increase job opportunities in such rural areas as the Mississippi Delta. The Secretary of Labor should try to improve the effectiveness of CEP by insuring that skill training and other manpower services are provided with due regard to the capabilities and needs of program participants and available job opportunities and by making all possible use of work experience programs and other subsidized employment, such as public service jobs funded under the Emergency Employment Act of 1971, for those participants who cannot be placed readily in jobs.

Case V -- 2. Audit Evidence.

Audit evidence represents facts and information used by the auditor as a basis for him to come to a conclusion on his audit objective. To influence the mind of the auditor towards his conclusion, the information must be relevant, material, and competent. There also must be enough evidence to significantly influence the mind of the auditor, or any other person who may use the information from the audit, to come to the appropriate conclusion on his audit objective.

All information found in an audit is not evidence. Background data are often used to set the scene for the report or provide information which would lead to the evidence. Recommendations are extensions of the audit for management's possible future use. They are not evidence, but are based on evidence. Conclusions are not evidence, but are based on evidence. Opinions are not evidence and should not be used as evidence. Assertions, implications, or innuendos are not evidence and should not be used as a basis for the auditor to come to a conclusion on his audit objective.

Evidence must be gathered on all three elements of the audit objective in order to come to an appropriate conclusion on that objective. The evidence must be relevant, material, and competent. Relevancy means that the information is related to the criteria of the audit objective. Materiality means that the information is significant. Competency means that the information comes from a competent source.

Sufficient evidence must be obtained to come to the appropriate conclusion. Sufficiency varies with the type of information obtained. Some information, such as direct evidence, may influence an auditor to come to a conclusion on his audit objective with only a small amount of information. Other types of information, such as cricumstantial evidence, requires a great deal more information to influence the auditor's mind towards his conclusion than does direct evidence.

The auditor often obtains data to make certain analyses. This analysis in term provides information which is good evidence, called analytical evidence. Other sources of information used as evidence are from records, from interviews or written requests, or from observations by the auditor.

The auditor should always use the best evidence available. For example, he should never use a copy of a document when he can obtain the original. He should never use second-hand information when he can directly obtain information.

With a statement of the audit objective and with sufficient relevant, material, and competent evidence, then the auditor should be able to come up with an appropriate third parties or use it as a basis for the second party to improve his management control.

Let us illustrate evidence by referring to Audit Scenario 1, Case V-1. In that Scenario, the audit objective was stated as:

> In their payments for travel by high-mileage drivers, have the Highway Department, the Department of Education, and the State Auditor's Office paid (causes) at least $10,000 more than they would have (effects) if they had used motor pool vehicles when motor pool vehicles cost less to operate than privately owned cars (criteria)?

Now, we can analyze the scenario paragraph by paragraph to see whether the information presented answers the question in the objective.

Case V -- 2. Audit Evidence.

Audit Scenario 1. Use of Government Owned Rather Than Privately Owned Vehicles.

Paragraph 1 "Our review of travel procedures at 14 major state agencies showed that agencies had not been furnished management information on the cost of operating motor pool cars at various mileage levels" is a statement of fact but is a statement that is not related to the audit objective. It is irrelevant information as far as the criteria of the objective is concerned but is valuable information as background information for the audit. Obviously this background information was gathered during the preliminary phases of the examination and meant that the auditor would have to develop his own criteria since none was available.

"and therefore were not in a position to adequately consider the alternative of providing motor pool cars to high-mileage drivers who drive their own cars on official business." is a conclusion of the auditor used as background information.

This entire paragraph is background information and has no direct relationship to the criteria of the audit objective which can be used to answer the questions in the objective.

Paragraph 2 "Our more detailed reviews at the offices of the Highway Department, the Department of Education, and the State Auditor's Office" is evidence on causes. While not specifically stated in this summary of the report, the review would encompass records examination, interview information, and observation information which would be used as evidence.

"showed that the annual cost of reimbursing high-mileage drivers for official travel exceeded the cost of operating motor pool cars by about $20,000." is both evidence on effects and evidence on the criteria. The auditor could not have calculated the amount of excess cost until he calculated the cost of operating pool cars and the cost of operating private cars. The calculation of the costs would be analytical evidence on the criteria. The calculation of the excess costs would be analytical evidence on the effects of the drivers in the agencies using private cars rather than pool cars. Both types of calculations would be based on records found in the agency -- records of the travelers' reimbursements and records of the costs of operating motor pool cars.

"If the mileage patterns observed were typical, the annual statewide costs of reimbursing high-mileage drivers for official travel would exceed the cost of operating motor pool cars by about $100,000." This is a conclusion of the auditor which is irrelevant to the audit objective. If this sort of information on effects is to be calculated, then the audit objective should include all agencies of the State rather than only the three mentioned in the objective. Then, this information would be evidence on effects.

As a result of our proposals, the Division of Administration revised the State travel regulations to provide policy guidelines for management to determine (a) when it is beneifical to the State for employees to use their own cars and (b) what reimbursement employees are entitled to if they are authorized to use their cars on official business when such use is for their own personal convenience.

Paragraph 3 — This paragraph is a recommendation and includes no evidence to answer the question in the objective of the audit.

Case V -- 2. Audit Evidence.

Audit Scenario 2. Benefits Could Be Realized by Revising Policies and Practices for Acquiring Existing Structures for Low-Rent Public Housing.

Audit Scenario 1 is a rather simple case and fairly easily understood. Let us take a more complex example and analyze it for the evidence needed to come to a conclusion on the audit objective. Scenario 3 of Case 5-1 is a more complex example. The proposed audit objective given in that Case was stated as follows:

> In the carrying out of their responsibilities are national and local officials and employees of HUD and officials and employees of 8 local housing authorities (causes) substantially accomplishing the goal of the low rent housing program of making available to low income families decent, safe, and sanitary dwellings (effects) by increasing the national housing supply, by substantially reducing the number of families or persons living in sub-standard housing, by providing standard housing to low income families without resulting in hardships to former occupants or to local governments by loss of tax revenue, and by acquiring property at a reasonable cost (criteria)?

Let us analyze this scenario but not by analyzing it paragraph by paragraph. Let us use numbers to identify the evidence and what type of evidence it is that was used to come to a conclusion on the objective as well as to identify other information presented in the report.

(1) The low-rent housing program is designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. (2) HUD provides financial and technical assistance to LHAs, which develop and/or acquire, own, and operate low-rent public housing projects to accomplish this aim.

(3) To provide low-rent public housing, LHAs use several methods -- conventional construction, turnkey, direct acquisition of existing privately owned dwellings, and leasing.

Use of direct acquisition method does not increase housing supply

(4) GAO reviewed HUD's and LHAs' practices and procedures relating to the direct acquisition method of obtaining existing, occupied standard structures and (5) found that, although the method was expedient, it had certain disadvantages which tended to make it less desirable than other methods.

(6) By using the direct acquisition method, the LHAs (7) increased the supply of low-rent public housing but did not directly help to achieve (8) the national housing goal of increasing the housing supply.

(9) GAO's review of 15 projects in 8 selected cities or metropolitan areas showed that LHAs had expended (10) about $80 million to acquire the projects without increasing the supply of standard housing by a single unit. (11) HUD's analyses of housing-market conditions showed that, in seven of the eight cities, a need for both subsidized and nonsubsidized standard housing existed when these projects were acquired. The LHAs' action, therefore, (12) did not improve the overall condition of the housing market. (13) It appears that, in such cases, the construction of new housing and the rehabilitation of substandard housing would be the preferred method and would use Federal funds more effectively by adding to the supply of standard housing.

(14) GAO proposed that HUD limit its financial assistance to LHAs to the acquisition of privately owned standard housing where the supply of such housing exceeds the demand and terminate the acquisition of existing, occupied, privately owned standard housing which is in the planning or early development stages and use the funds instead to finance the construction of new low-rent public housing projects or to purchase and rehabilitate existing substandard housing.

(15) HUD did not agree because it felt that such a practice would be too restrictive. HUD commented that, despite an overall demand for unsubsidized housing in a community, some structures would not meet the demand for various reasons.

(16) GAO agreed that, if certain standard housing had a high vacancy rate and could be purchased at an acceptable price, acquisition of such housing by an LHA would be beneficial. Of the 15 projects reviewed by GAO, however, all had low vacancy rates.

Acquired units are not being used to house those most in need

(17) GAO's review showed that the acquisition of privately owned standard housing (18) generally had not substantially reduced the number (19) of families or persons living in substandard housing, (20) because many of the occupants of the acquired housing units had previously lived in standard housing. Some of the families occupying the acquired units had incomes exceeding the established limits entitling them to public housing. Also, some persons were occupying units larger than those suggested in HUD's guidelines.

(21) Because only a relatively small number of the occupants of the acquired housing projects included in GAO's review had previously occupied substandard housing, there appeared to be a need for specific standard admission policies to insure that those families or persons most in need are given preference.

(22) GAO suggested that the Congress might wish to require that LHAs give preference for admission to public housing to occupants of private substandard housing over those who are occupying private standard housing.

Hardships to former occupants of acquired properties

(23) The acquisition of privately owned standard housing (24) has provided standard housing to certain low-income families (25) sooner than it could have been provided under the other methods, but it has resulted in (26) (1) hardships to former occupants to acquired projects who were forced to move and (2) loss of tax revenues to local governments. (27) In some cases, the people forced to move were not assisted in relocating, (28) although HUD regulations provided for it. (29) Other displaced occupants were subjected to physical and financial hardships.

(30) GAO recommended that HUD, prior to approving LHA's acquisition of occupied, privately owned standard housing, require LHAs to adequately demonstrate that housing of comparable quality and rent existed in the area and that adequate relocation assistance would be available for tenants to be displaced.

(31) Because it is awaiting the results of its housing studies, HUD took no action on GAO's recommendation.

Need to insure that prices of acquired properties are reasonable

(32) GAO's review indicated that HUD (33) needed to improve (34) its procedures to provide adequate assurance that the prices of acquired properties are reasonable. (35) GAO recommended that HUD establish appraisal requirements for the direct acquisition method (36) similar to those established for the turnkey method which requires that two independent cost estimates be obtained and provide that the total price be no greater than the average of the cost estimates. (37) Although HUD agreed with this recommendation, it took no action pending the results of the housing studies. (B-114863, Sept. 7, 1972.)

Number	Evidence	Where From	On Which Element	Comments
1.	Yes	Records	Criteria	While not stated this information would have come from laws or regulations.
2.	Yes	Records	Causes	While not specifically stated this information would come from records such as laws and regulations as well as observations.
3.	Yes	Observations and records	Causes	This could be background information.
4.	Yes	Observations, interviews, and records	Causes	
5.	Yes	Analytical	Effects	Includes a conclusion. Although the method was expedient, the method is not evidence.
6.	Yes	Analytical	Causes	
7.	Yes	Analytical	Effects	
8.	Yes	Records	Criteria	
9.	Yes	Observations, interviews, and records.	Causes	Not specifically stated implied in "review".
10.	Yes	Records	Effects	
11.	Yes	Records	Causes	
12.	Yes	Analytical	Effects	
13.	No			Conclusion leading up to recommendation
14.	No			Recommendation
15.	No			Rebuttal to recommendation
16.	No			Rebuttal to rebuttal

17.	Yes	Observations, interviews, and records.	Causes	
18.	Yes	Analytical	Effects	
19.	Yes	Records	Criteria	Some law or regulation must state this
20.	Yes	Interviews Observations, and records	Causes	
21.	No			Conclusion leading up to recommendation
22.	No			Recommendation
23.	Yes	Records, Interviews, and observations	Causes	
24.	Yes	Records	Criteria	Must be some law or regulation to support this
25.	Yes	Interviews, observations, records and analytical	Effects	
26.	Yes	Records	Criteria	Regulations or laws
27.	Yes	Interviews	Causes	
28.	Yes	Records	Criteria	
29.	Yes	Observation or interviews	Effects	
30.	No			Recommendation
31.	No			Recommendation information
32.	Yes	Records, observation and interviews	Causes	
33.	Yes	Analytical	Effects	
34.	Yes	Records, Interviews, and observation	Criteria	

35.	No	Recommendation
36.		This could have been used as evidence to what was reasonable under 34.
37.	No.	General information.

Required:

Analyze Scenarios 3 and 4, the ones given in Case V -1 as Scenarios 8 and 9, into the types of evidence. Do it similar to the illustrations given above in Scenario V - 2.

Case V -- 2. Audit Evidence.

Audit Scenario 3. Uneconomical Package Sized Used in a Commodity Distribution Program.

(1) In an audit of the Commodity Distribution Program of the Department of Agriculture, GAO reported that savings could be realized if larger package sizes of commodities are used when possible.

Criteria used to measure efficiency and economy

(2) The Department of Agriculture's instruction to State distribution agencies require that, to the extent practicable, commodities be donated to schools and institutions in the most economical size packages. (2) When commodities are available in packages of more than one size, the instructions require that State agencies requisition the commodities to the maximum extent practicable, in large-size packages -- such as 50-pound containers -- for schools and institutions.

Conditions found by auditors

(4) In seven States covered by the review, distributing agencies were requisitioning foodstuffs for large users in small-size packages instead of large-size packages.

Effect of the conditions

(5) A substantial part of the additional costs of providing flour, shortening, and nonfat dry milk in small containers to schools and institutions could be saved. (6) GAO estimated that, nationwide, for fiscal year 1970 these additional costs totaled about $1.6 million.

Cause of the situation

(7) Agriculture regional officials said that, although they encouraged State distributing agencies to requisition commodities in the most economical size package practiable, they had not questioned the propriety of State agencies' requesting commodities in small-size packages for schools and institutions and that they (18) had not required the agencies to justify such requests because they believed the agencies were making the proper determinations as to package sizes.

Auditors' recommendations

(9) In view of the savings available by acquiring commodities in large-size packages, GAO recommended that Agriculture take appropriate action to

have regional offices vigorously enforce the requirement that State agencies requisition commodities -- particularly, flour, vegetable shortening, and nonfat dry milk -- in the most economical size packages practicable. GAO recommended also that State agencies be required to justify, when necessary, the requisitioning of the commodities in small-size packages for schools and institutions.

Case V -- 2. Audit Evidence

Audit Scenario 4. State Employment Program.

(1) GAO reported this situation where the objectives of a State employment program were not realized.

Goal of the program

(2) The Department of Labor's Concentrated Employment Program (CEP) was designed to combine, under one sponsor and in a single contract with one funding source, all manpower training and other services necessary to help persons move from unemployability and dependency to self-sufficience (3) CEP seeks to accomplish this objective among persons in a designated target area by (1) making intensive outreach efforts to bring persons into work-training program; (2) presenting a variety of job-training opportunities to applicants; (3) providing such supportive services as day care for children, transportation and health care; and (4) placing applicants in jobs.

Condition found by the auditor

(4) From December 1968 through February 1970, of the 6,732 persons enrolled in the program, 3,333 received some training or work experience and 2,586 were placed in jobs. (5) About one-half of those placed in jobs, however, did not receive any orientation, training, or work experience. (6) Often they were limited to the same types of low-skill jobs they held before joining the program.

(7) Many placements were only temporary. Only 56 percent of the persons placed were employed 6 months later. Many had changed jobs during the 6-month period.

(8) Many enrollees were placed in jobs requiring similar or lower level skills than those required in previous occupations. Only about one-half of the jobs increased the wages employees were receiving before entering the program.

(9) Job placement was not always related to the type of training an enrollee received. For example, a person trained as a welder was placed as a janitor, an offset printer as a mail clerk, and an automobile mechanic as a maintenance man.

Effect of not meeting the goals

(10) About $14 million was spent on CEP in the Mississippi Delta from June 1967 through December 1971.

Cause which contributed to failure
to meet the goal

(11) CEP's effectiveness was hindered by

(12) -- economic slowdown which closed or cut back operations of some companies in the area,

(13) -- the special nature of the disadvantaged residents of the area -- minority group farm-workers accustomed to seasonal employment,

(14) -- a stagnant economy,

(15) -- an insufficient labor demand,

(16) -- a labor force consisting largely of black farm-workers without necessary educational and vocational skills, and

(17) -- the large area and widely dispersed population that the program was trying to reach.

(18) Increased mechanization has displaced many farm-workers in the traditionally agricultural delta area. (19) New job opportunities have been scarce because industries have been slow to come into the delta and available jobs have required skills which enrollees do not have and cannot obtain reasonably.

Auditors' recommendations

(20) The Congress is currently considering measures that will seek to revitalize the economy and increase job opportunities in such rural areas as the Mississippi Delta. (21) The Secretary of Labor should try to improve the effectiveness of CEP by insuring that skill training and other manpower services are provided with due regard to the capabilities and needs of program participants and available job opportunities and by making all possible use of work experience programs and other subsidized employment, such as public service jobs funded under the Emergency Employment Act of 1971, for those participants who cannot be placed readily in jobs.

Source: op. cit. p.

Section VI -- The Phases of an Audit

Case VI - 1. The Performance Audit (The Management Audit) of a Large City Garage

Up to now, we have been working backwards in explaining how to make an audit. Cases and Audit Scenarios from the audit report, the final product, were used to show that an audit has three essential elements -- the criteria, the causes, and the effects. Next, we learned how to develop an audit objective, using the three elements as the basis for the objective. We then considered the types of information needed to allow us to come to a proper conclusion on the audit objective. Information, when related to developing a conclusion on the objective, was called evidence. These two steps in developing an audit are called "the report development" and "the detailed examination" phases of an audit.

We also found that certain information other than evidence was needed during these two phases of the examination--background data and recommendations, for example. The recommendations came about as a result of the audit, but the background data could have been obtained, and generally are, during the early phases of the audit.

Up to this time we have not indicated how the auditor might become involved in an audit area in the first place, let alone how he determines the specific audit activity or program he will examine. So, the purpose of this section is to allow the students to find out how an auditor gets into a specific area and then comes up with a specific audit objective within that area.

States and counties have many areas which can be audited--highways, education, welfare, penal institutions, collegiate education, to name a few found on a state. A city likewise has many areas--the police department, the city streets and highways department, the jails, the hospitals, the municipal waterworks or electric works, garbage collection, and education in many forms. Thus, one can see that audit areas are often related to specific organizations.

Each of these specific organizations may have activities, programs, or parts of programs. For example, the Division of Administration may have many activities such as accounting and budgeting, auditing, garages, purchasing, computers, cafeterias, and personnel. In addition, each of these activities may have additional activities under them. For example, a large city garage may have many activities. They may carry out requisitioning, parking, storing, repairing, disposing of new or used parts, and setting standards for usage. As can be seen, activities are more often than not directly related to a specific organizational unit.

Programs, however, may overlap organizations. For example, city hospitals may be involved in social counseling. Social counseling may also be a responsibility of the welfare department. The city jails may also have counselors doing social counseling. The police often are involved in some form of social counseling. If an auditor is thinking of auditing a program of social counseling he may become involved in many organizational units. Thus, more often than not, programs overlap organizational units.

To determine how the auditor gets from the broad area down to the specific audit objective, let us first start with the organization of the auditor's office.

Ordinarily, a governmental auditor's office is organized into audit groups which have jurisdiction over the organizations which they will audit. Since most governmental organizations are created for a specific functional

purpose, then most audit groups are functional in nature. For example, a state auditor's office may have one group in charge of the education department, one group the highway department, one the welfare department, and one having charge of a number of small independent offices.

However, some offices such as the U. S. General Accounting Office, have some groups organized into program areas, such as the Resources and Economic Development Division, the Manpower and Welfare Division, and the Federal Personnel and Compensation Division. Activities in these Divisions would cut across organizational lines of several of the Federal organizations. For example, Federal personnel programs would cut across organizations involved in both military and civilian personnel.

Unless the auditor's office is specifically organized for program audits, there is often a jurisdictional dispute among the audit groups. The head of the audit organization can often solve this problem of jurisdictional disputes by having one group not being functionally organized, but being organized for the specific purpose of examining the various programs.

Once this first level of audit choice (or direction of effort) has been made, and it is usually made by the head of the organization based on such factors as Legislative interest, dollars spent, number of people, newness of programs, and public interest, then specific audit choice must be made as to the next level of audit direction. The GAO bases this choice on such factors as:

1. Specific statutory requirements for audits
2. Congressional requests
3. Other commitments
4. Expressions or indications of congressional interest
5. Potential adverse findings of significance
6. Importance of programs or activities, judged by such measures as size of expenditures, investment in assets, and amount of revenue
7. Nature of GAO experience with the agency

8. Knowledge as to effectiveness of system of management control
9. Capacity to develop findings and complete reports
10. Responsibility for making settlements with accountable officers
11. Status of agency accounting development
12. Other special factors (e.g., establishment of new program).

Sometimes, the individual auditor has no choice in determining which audit he must make. Such audits as those required by law or assigned to him by a higher level of authority are illustrations of this type. He then goes through the two audit phases discussed in the preceding section--the detailed examination and the report. When he does have a choice, using the above or similar standards for that choice, then he would go through two additional phases to determine what audit he should make. These two additional phases are called a preliminary survey and a review and testing of management control. The entire list of phases of an audit therefore are:

1. The Preliminary Survey
2. The Review and Testing of Management Control
3. The Detailed Examination
4. The Report.

With this limited information concerning the phases of the audit, we will learn how to apply the various phases by taking a case composed of four scenarios, one for each phase. This should allow you to have a general understanding of how an audit is started and completed.

In Case VI - 2 we will provide you with a visual model by which you should be better able to obtain a conceptual understanding of the phases of an audit.

Case VI -- 1. The Performance Audit (The Management Audit) of a Large City Garage.

Audit Scenario VI - 1. The Phases of an Audit -- The Preliminary Survey.

Preliminary Information. The mayor and city council of a large city were disturbed over the high costs of service at the city garage. Many complaints had been made by managers of departments of the various organizational units having to use the garage throughout the city that the costs for routine servicing of vehicles at the garage were much higher than that which could be obtained at commercial garages. Their major complaint concerned the cost of routine servicing. They were not dissatisfied with the service obtained, only the cost. The costs, according to them, were extremely high for the service obtained.

The mayor talked to the head of the Audit Department of the City and suggested to him that he look into the operations of the City Garage, especially the routine servicing performance, and report back to him any indications of what could be causing the costs to be so high at the garage.

Background Data. The city garage was the only garage the city had for servicing all of the automobiles and trucks for the city. It had the responsibility for keeping in service the approximately 5,000 trucks, automobiles, and other internal combustion equipment, such as tractors and mowers which the city had. This garage provided services to all of the departments, such as the police department, the fire department, and the highway and streets department.

This prime responsibility for servicing the automotive equipment for the city included determining requirements, buying, storing, requisition parts

and supplies, establishing maintenance and service standards, repairing the equipment, and disposing of new and used parts not needed. It had the full responsibility for keeping up the equipment once the equipment was originally purchased until the equipment was finally disposed of.

The garage operated on a revolving fund basis and changed only the costs it incurred. It did not attempt to make a profit. Costs included overhead costs as well as direct costs.

The garage was very modern and had experimented with several types of parts in order to determine the parts which would give the maximum service life for the cost. For example, they had determined that spark plugs with platinum tips lasted five times as long as the conventional spark plug, but they cost three times as much. In addition, the platinum tipped spark plugs had a reclamation and disposal value while the conventional spark plugs cost the garage the time and effort to dispose of them. The conventional spark plugs cost the garage $.75 while the platinum tipped plugs cost the garage $2.50. The salvage value of the platinum tipped plugs was $.25. In order to make the determination to buy the platinum tipped spark plugs, they also had set a standard for usage for both the platinum tipped plugs and the conventional plugs. The conventional type of plugs was to last 10,000 miles and the platinum tipped type was to last 50,000 miles before being charged at routine servicing time.

The garage serviced the equipment at regular service periods, both mileage and time, in addition to servicing the equipment at any failure. For example, automobiles were brought in for routine servicing, including tuning the motor, every 6,000 miles or six months whichever came first. Since many of the automobiles, e.g., police cars, were used 24 hours a day, the average

service time on automobiles was once every month. Spark plugs were one of the large items of parts cost for this routine servicing.

The auditors obtained the above information by looking at cost records, by reviewing the charter of the garage, and by discussing operations of the garage with those having the responsibility for its operation. While they were making a "walk-through" of the garage, they also observed quite a few spark plugs which appeared to be in original containers in the disposal bins.

According to information furnished by the requirements group, most of the plugs used were of the platinum tipped variety. During the "walk-through" they also noticed that most of the plugs in the disposal bin appeared to show little wear and appeared almost new.

Required:

Several possible audit objectives can be determined from this background ard general information. List as many as you can. Be sure to include all three elements in your tentative objective. You may have to assert various elements at this time since evidence has not been obtained on each of the elements.

Since the mayor was more concerned with routine servicing, also keep your tentative objectives directly related to the servicing costs.

Case VI - 1. The Performance Audit (The Management Audit) of a Large City Garage.

Audit Scenario VI - 2. The Phases of an Audit -- The Review and Testing of Management Control.

You should have been able to identify several possible audit objectives from the preliminary and background information furnished in Audit Scenario VI-1. Three of the possible audit objectives could be:

1. Have the mechanics failed to return to stock (causes) platinum tipped spark plugs which are over their needs (criteria) at a loss to the city of $2.50 each (effects)?
(Auditor observed plugs in disposal area in factory sealed containers).

2. Have the mechanics replaced plugs (causes) before obtaining maximum service life from the plugs (criteria) at a loss to the city of $2.50 for each plug replaced too soon plus all of the costs of buying and storing the additional plugs (effects)?
(Auditors observed plugs in disposal area which appeared to have relatively little use).

3. Have the mechanics failed to use conventional type plugs (causes) in place of platinum tipped plugs whenever possible (criteria) at a savings to the city of the difference between the cost of the conventional plugs ($.75) and the platinum tipped plugs ($2.50) plus the additional costs of purchasing?
(Auditors were told by the requirements group that most of the plugs used were of the platinum tipped type).

The auditor at this time must make a decision whether he wants to use any of the possible objectives or start all over. Most decisions of this type are based on the possibility of the significance of the effects. Obviously, the second and third possible objectives would have the probability of greater significant effects than would the first one.

Since the purchasing and storing group already had a sufficient stock on hand of the platinum tipped type, greater savings might be made from Item 2 than from Item 3. The garage would have to order a sufficient quantity of conventional plugs immediately if this objective were chosen and the question in the objective was answered in the affirmative.

So, for learning purposes, let us continue the case based on the possible audit objective #2.

Obviously, each of these possible objectives are only possibilities, not anything firm at all. Before he knows whether he should go into the detailed examination the auditor must find out whether he has a criteria that the garage would accept, whether the effects actually would be significant, and who caused the problem.

To do this, he then would have to gather additional background data when necessary and some evidence from actual operating conditions (called management control).

No additional background data need be obtained at this time. But the auditor must obtain evidence on the possible objective to continue the examination. He does not need much evidence at this time. He only needs just enough on each element of the audit objective to convince him that it is worthwhile to continue the examination. The process of reviewing management control is to follow a transaction through the management control sys-

tem, that is, start with the determination of requirements; look at the purchasing, the storing, and the issuing of spark plugs; check the servicing records as well as observe the actual servicing conditions; and then observe the disposal process.

Some of these transactions, such as the disposal process, had already been accomplished during the preliminary review phase. So the auditor needed to obtain evidence on the tentative objective from each of the other sources as he follows the transaction.

Evidence Obtained. The auditors reviewed the records which the requirements group used in determining how many spark plugs needed to be ordered. These records showed that the average service life of the platinum tipped plugs ranged from 6,000 to 10,000 miles, based on the normal service life of their use in the automobiles. They also reviewed the purchasing groups purchase orders based on the requirements. These showed that orders were outstanding based on the 6,000 to 10,000 miles of usage.

The auditors reviewed the appropriate technical manual on spark plug usage which showed that 30,000 miles of usage was the minimum desired service life from the platinum tipped plugs.

The records also showed that 5,000 automobiles and trucks were given routine service maintenance several times during the year. Most of the trucks and automobiles were six or eight cylinders.

From watching the mechanics service an automobile, the auditors observed that the mechanics routinely changed the plugs every time they serviced an automobile.

Required:

1. Determine whether the auditor would have a firm audit objective. Remember that to have a firm objective the auditor would have to have a

fairly good indication from the evidence obtained that the criteria are firm, somebody caused the results, and the results could be significant.

2. If you conclude that the auditor would have a firm audit objective, state the objective. If he does not have a firm objective, what additional evidence would be needed for him to come up with a firm objective?

Case VI -- 1. The Performance Audit (The Management Audit) of a Large City Garage.

Audit Scenario VI - 3. The Phases of an Audit -- The Detailed Examination.

From the evidence given, you should have been able to come up with a firm audit objective. Up to this time you have not needed much evidence, just enough to convince yourself, as an auditor, that the examination should be continued.

The records evidence from the technical manual on spark plug usage should convince the auditor that he has a reasonable and firm criteria of 30,000 miles usage from the spark plugs.

The evidence from the records of the requirements group and the purchasing group showed that the actions of the mechanics were contrary to the standards of the technical manual. It also showed that the actions of the requirements group in determining requirements and the actions of the purchasing group in buying spark plugs were based on the actions of the mechanics.

The auditor would have to make an analysis to come up with evidence on the effects. If the garage serviced 5,000 automobiles and trucks approximately once a month, every 6,000 miles, and the mechanics replaced the plugs each time the vehicles were serviced, then they would replace between six and eight plugs per vehicle per month. If the mechanics were replacing the plugs every 6,000 miles and the manual said every 30,000 miles, then they should get 5 times as much usage from the plugs or 4 additional periods of usage. The analytical evidence would show that about

$1,000,000 per year could be saved (5,000 vehicles x 12 times x 8 cylinders x $2.50 cost of the plugs x 4/5 = $1,000,000. If 6 cylinders were used instead of 8 cylinders, the savings would be $720,000).

This obviously is enough to convince the auditor to continue, but the evidence is not sufficient to report to the mayor and city council. There are still too many missing links. He must gather sufficient relevant, material, and competent evidence on the objective to convince whomever he is reporting to that the criteria are reasonable, acceptable, and appropriate; that he can identify the specific action or lack of action which caused the result; and that the effects are significant. The audit objective would be stated somewhat as follows:

Has the City of X's Garage, by the mechanics changing the platinum tipped spark plugs every 6,000 miles, the requirements group determining the requirements based on the actual usage of 6,000 miles, and the purchasing group ordering the spark plugs based on the requirements group's determination (causes), lost over $1,000,000 each year (effects) by the mechanics not using 30,000 miles as the basis for changing spark plugs, the requirements group not determining requirements based on 30,000 plus miles of usage, and the purchasing group not ordering the spark plugs based on the requirements group's determination of 30,000 plus miles of usage (criteria).

Gathered Sufficient Relevant, Material, and Competent Evidence on the Objective to Come to A Conclusion. The auditors obtained reports of tests made by technical personnel which originally convinced the garage that they should use the platinum tipped plugs. This report showed that the plugs would give a minimum of 50,000 miles of wear. The auditors also obtained from the

garage manager the names of other garages using this particular type of plug and after contacting them found that the plugs, once placed in the car would last the life of the car, up to 200,000 miles. They said they had not used the plugs in any vehicles over 200,000 miles. They also said that to obtain over 100,000 miles of wear from the plugs, that they used an inexpensive cleaning and gapping machine to clean, test and regap the plugs. The plugs then lasted until the car was sold or traded in for a new car.

The auditors also discussed with the mechanics the reason for discarding the plugs and replacing them with new plugs whenever the cars were brought in for servicing. The mechanics said that they had always done this for any car they serviced and saw no reason for not continuing. When asked whether they knew the spark plugs they were using were special spark plugs and that they would last for at least 30,000 miles, they said that they knew something was different about them but to them they were just spark plugs.

In discussing the reason for not obtaining more mileage from the plugs with the supervisor of the mechanics, he said that his mechanics were well trained mechanics and he accepted their opinion on whether the spark plugs needed replacing or not.

According to the requirements group the spark-plugs were a special order and therefore a year's supply must be kept on hand at all times. Every six months the purchasing group would order a sufficient amount to keep the minimum of a year's supply by replacing the amount used the previous six months. In an interview with the purchasing group they said that they were just getting ready to place an order for another six month's supply based on the requirement group's determination that the spark plugs had only been used for 6,000 miles. The order, according to the purchasing agent amounted to

about 200,000 platinum tipped spark plugs at a cost of about $500,000.

Upon seeing the computations of the auditors, the purchasing group said they would defer placing the order until further notice from the requirements group. Required:

1. From the evidence obtained, what conclusion would you come to on the audit objective?

2. State your conclusion in a summary report form along with sufficient evidence to support your conclusion.

Case VI - 1. The Performance Audit (The Management Audit) of a Large City Garage.

Audit Scenario VI-4. The Phases of an Audit--The Report.

Most auditors would report on the audit in a manner somewhat as given in the following summary. Obviously, the auditor would have to include much more detail than that shown below. However, sufficient evidence is available in the working papers to support the following conclusion.

Our audit disclosed the practice of mechanics in the garage changing high-service-life spark-plugs during each routine maintenance, about 6,000 miles and once a month, instead of obtaining the required service life of 30,000 miles and the expected service life of 100,000 to 200,000 miles. Failure of the mechanics to obtain the desired or expected service life from the high-service life spark resulted in an overstatement of requirements by the garage and thus the purchases of the plugs by about $800,000 per year; the increased cost for the routine servicing of each vehicle by about $15 - $25 or $180 to $300 each year; and an overstocked inventory of about $1,000,000.

Purchasing officials have already obtained and inventory officials already have on hand sufficient spark plugs to last for several years using the desired or expected service life. Purchasing officials have informed us that they are deferring buying any more spark plugs, about $500,000 worth.

Our recommendation to the garage is to have the officials in charge inform the mechanics that they are not to change spark plugs every rou-

tine servicing period. They should require the mechanics to be sure the plugs obtain the maximum service life before changing them. With this immediate change, the requirements group would base their requirements on the actual service life, which should be between 100,000 and 200,000 miles, and thus immediately inform the purchasing group to buy no more spark plugs until those on hand reach a desired level. With these changes, the garage could then immediately reduce the cost of routine maintenance.

Required:

1. Analyze the above report. Approach your analysis on the basis of management control and also on the basis of accountability. Is there any easy way to tell the garage that they are doing wrong?

Case VI -- 2. A Model for the Phases of an Audit.

The following model -- Chart VI - 1 --has been reproduced with permission from the book by Leo Herbert on "Performance Auditing.:

Required:

From the information given in each of the Scenarios in Case VI-1, try to fit that information into the model.

Chart VI-1

A CONCEPTUAL MODEL FOR AUDITING AND COMMUNICATING INFORMATION ABOUT AND TO MANAGEMENT

THE AUDIT			THE COMMUNICATION
Phase I Define Possible Objective Consider Alternative Objectives	Phase II Delimit Objective	Phase III Come to Conclusion on Objective	Phase IV Report Conclusion
The Auditors: (1) Should obtain background information on the area being considered, (2) Should obtain evidence on one or more or the elements--criteria, causes, or effects--of a possible audit objective in the management process being audited: (a) By analyzing background data, (b) By interviews, records examinations, or observations, (3) Should assert the other element or elements to have a possible audit objective, (4) Should assert alternative criteria and other elements to establish possible alternative objectives, (5) If possible alternative objectives are to be considered, should obtain evidence on one or more elements of the possible alternative audit objective when no evidence has previously been obtained, (6) Should summarize evidence and assertions, (7) Should conclude from evidence and assertions that they: (a) Should go to Phase II on the audit objective or, (b) Should stop.	The Auditors: (1) Should obtain additional background information on the management area being reviewed, (2) Should obtain sufficient evidence on audit objective to determine either: (a) That there could be a reasonable and firm criteria, (b) That action or lack of action at one or more levels of responsibility could cause an effect, (c) That the possible effects could be significant, or (d) That evidence could not be obtained on the three elements of the audit objective, (3) Should summarize the evidence obtained, (4) Should conclude whether the evidence warrants that they (a) Should go to Phase III, or (b) Should stop.	The Auditors: (1) Should obtain additional background information (2) Should obtain additional evidence on the audit objective to determine: (a) The acceptability and appropriateness of criteria and that any arguments against acceptability and appropriateness of criteria can be rebutted. (b) The specific action or lack of action at levels involved which caused the effects, (c) The significance of the effects, or (d) That for the audit objective, no appropriate criteria, no determinable causes, or no significant effects can be determined, (3) Should summarize evidence in terms of criteria, causes, and effects, (4) Should conclude from the summarized evidence that the effects are significant when the results of the actions are evaluated against the criteria, and, (5) If the evidence supports the conclusion, should report finding, Phase IV, or, (6) If the evidence is not sufficient to support conclusion: (a) Should obtain additional evidence to support conclusion, and report finding, or, (b) Should stop.	The Auditors: (1) Should obtain additional background information needed to communicate conclusion on audit objective examined in Phases I, II, and III. (2) Should communicate the conclusion to the audit objective: (a) Should set the scene through the use of background data and statement of the audit objective, (b) Should provide reader sufficient evidence on criteria, causes, and effects to let him come to the same conclusion on the audit objective as the auditors, (3) Should provide recommendations to the proper levels of management to carry out criteria as standard for future management actions.

VI.9.78

Section VII -- Performance Auditing for Improving Management's Efficiency and Economy

Case VII - 1. Increasing Revenue from Self Assessment Taxes -- State of ABC.

Audit Scenario 1. Preliminary Survey.

Preliminary Information. In news releases and official position papers released by both the Governor's Office and both houses of the State Legislature, they indicated that both the Governor and the State Legislature were interested in improving the revenue position of the State of ABC. Indications were also given that heads of State agencies were complaining that they had too much to do without the resources to do it and they needed increased appropriations.

According to comments made by both parties including the Governor, they had come to the conclusion that it was politically inexpedient to raise taxes at the present time although they needed additional revenue. And to further complicate the situation, many taxpayers were complaining that taxes were too high and some taxpayer groups were talking about pushing for reduced taxes.

The State Auditor's staff had read and heard the comments of the Governor and the legislature and decided that they had better have some information on the subject before either the Governor or the legislature asked them what they had done.

The staff which had the responsibility for auditing the organizations concerned with revenue and taxation met with the State Auditor and decided that they would, with his approval, look into the matter immediately.

Background Information. By reviewing the laws, legislative history, and regulations of the Department of Revenue of the State of ABC, the auditors found that the responsibility for collecting all self assessment taxes for the State had been given to the Department of Revenue. The law also said that all tax returns must be kept confidential. So, in gathering background information, the auditors decided not to look at any tax returns.

At one time, the State had collected real property taxes. But, when the State began to collect income, sales, and personal property taxes they had relinquished this source of revenue to the cities and the counties.

So, almost all revenue sources from which the Department collected revenues were currently under a self assessment system. A self assessment system meant that the taxpayer originally determined whether he must file a return and establish the tax due. The State did not do that for him as is normally done under an ad valorem tax system.

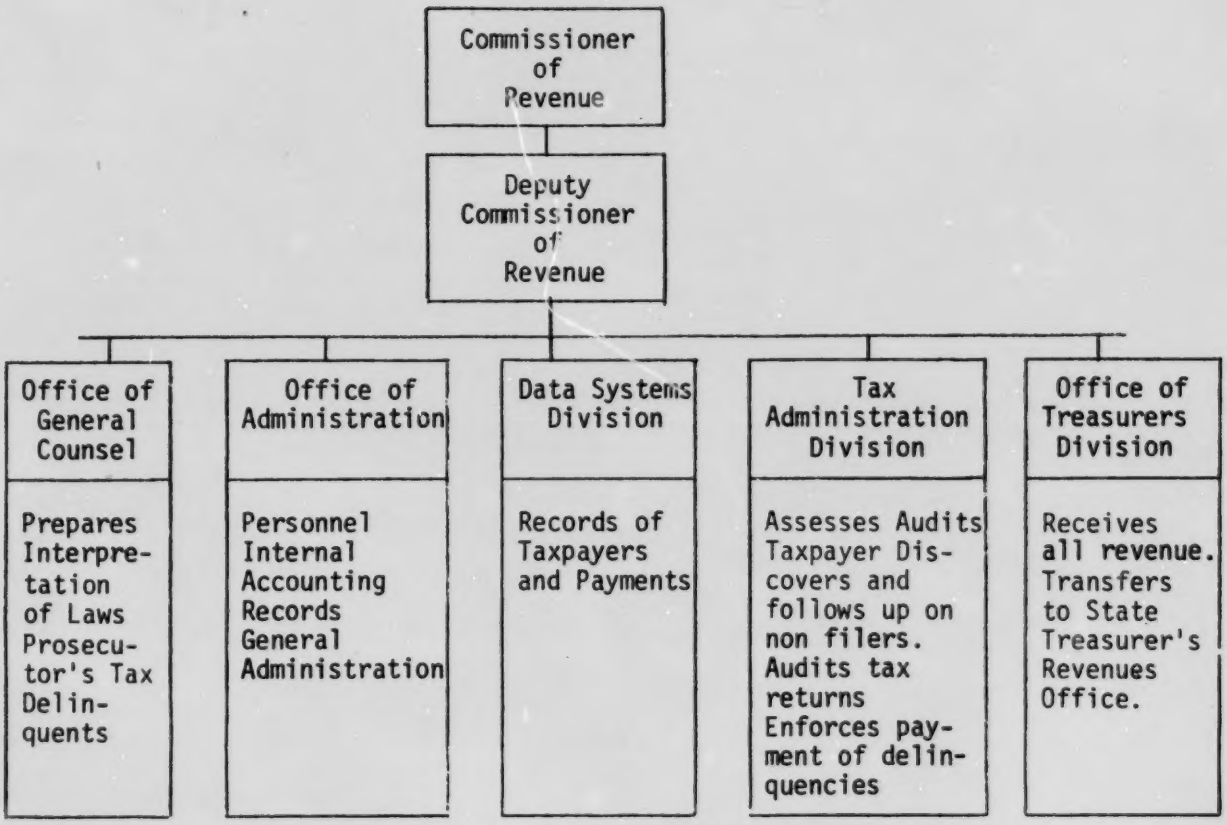
The Department of Revenue had collected the following revenue from the indicated sources during the preceding fiscal year:

Table I
Sources and Amounts of Revenue
Fiscal Year 19XX
(Amounts to Nearest Millions of Dollars)

1.	Sales Taxes		$450,000,000
2.	Individual Income Taxes		
	a. Resident	$350,000,000	
	b. Non-resident	50,000,000	400,000,000
3.	Corporate Income Taxes		150,000,000
4.	All other revenue sources including unincorporated business, personal property, gift, estate, inheritance, liquor, and tobacco taxes and grants		100,000,000
			$1,100,000,000

The Organization Chart of the Department of Revenue is shown in Chart I with a statement of the duties of the various offices and divisions.

Chart I
Organization Chart
Department of Revenue
State of ABC


Commissioner of Revenue
Deputy Commissioner of Revenue
Office of General Counsel
Prepares Interpretation of Laws Prosecutor's Tax Delinquents
Office of Administration
Personnel Internal Accounting Records General Administration
Data Systems Division
Records of Taxpayers and Payments
Tax Administration Division
Assesses Audits Taxpayer Discovers and follows up on non filers. Audits tax returns Enforces payment of delinquencies
Office of Treasurers Division
Receives all revenue. Transfers to State Treasurer's Revenues Office.

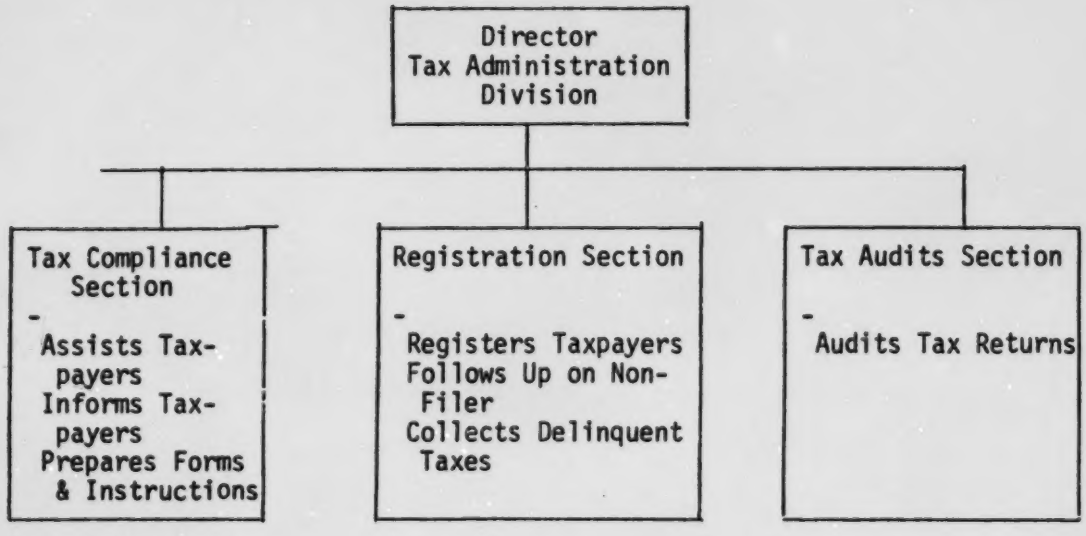
July 1, 19XX
Approved
John Doe
Commissioner

The authorized positions and fund allotments for the various offices and divisions were as follows:

Office of Division	Authorized positions	Amount Alloted (Nearest 10,000)
Office of the Commissioner of Revenue	8	$ 160,000
Office of General Counsel	25	440,000
Office of Administration	50	900,000
Data Systems Division	97	2,000,000
Tax Administration Division	350	5,900,000
Office of Treasurer	100	1,600,000
Total	630	$11,000,000

The Tax Administration Division is the organization principally responsible for assuring compliance with the tax law. It informs taxpayers of the laws and regulations and assists taxpayers in the preparation of their returns. It also follows up on non-filers and audits tax returns. It is organized as shown in Chart II.

Chart II
Organization Chart
Tax Administration Division
Department of Revenue



The auditor obtained articles and books on self assessment taxes and found that the assumption behind self assessment taxes is that individuals will (1) voluntary follow the laws, regulations, and related assessment instructions, (2) file proper tax returns, and (3) pay taxes due. Further information stated that voluntary compliance with self-assessed taxes requires adequate information concerning laws, regulations, and preparation of tax returns. Unless provided adequate information, taxpayers often neglect to file returns or file incomplete returns. Also, unless information and forms are understood the taxpayer often is turned off and neglects to file a return. Withholding taxes often helps to collect some of these taxes but does not help when the taxpayer works in other jurisdictions or is not an employee.

During the auditor's walk through of the activities of the Department of Revenue he observed several people talking on the telephone. Upon questioning the employees concerning their activities, they were told that they were answering questions concerning preparation of individual income and business sales tax returns. They also stated that they had several questions or statements that seemed to come up from every taxpayer requesting information. They always stated that income tax forms did not agree with the Federal taxing system and the conversion problem was extremely difficult. They also said that the instructions for filling out both income and sales tax returns were difficult to understand. And the comment constantly made was that even though they filled out the form in the best manner they knew how they were not sure that their tax was computed properly.

In the Data Systems Division a copy of the latest list of individual and corporate income and sales tax taxpayers was shown to the auditors.

The Director of the Division said that he was a long ways from being sure that the list of taxpayers for any of the categories was complete. He said that the computer was not programmed to relate sales taxes to business income taxes or franchise taxes. Nor, was he able to compare Federal tax returns on the computer with State tax returns. He also said he was unable to relate withholding taxes on the computer with the return. He said that it would take only a little more time and effort to program the computer to do so. He therefore was not sure that all of the taxpayers had filed or who should have filed.

While passing through the Tax Administration Division, some of the tax auditor's commented that they thought they had done an outstanding job of auditing tax returns. The external auditors were given a statement of collections during the past two years of sales taxes and income taxes collected as a result of the audit program (See Table II).

Required:

From the preliminary information and background data given and from your own knowledge of state income and sales taxes, identify as many possible audit objectives as you can for increasing revenues for the State of ABC from the self assessment revenue sources.

TABLE II
Tax Administration Division
Audited Returns, Additional Revenue, and Hours
For Years 19XX and 19XX-1

Type of Return	19XX	19XX-1
Individual:		
Audited Returns	25,000	23,000
Audit Revenue	$2,400,000	$2,200,000
Audit Hours	65,000	52,000
Withholding:		
Audited Returns	800	900
Audit Revenue	40,000	160,000
Audit Hours	1,700	2,000
Corporation:		
Audited Returns	2,100	1,700
Audit Revenue	1,300,000	1,400,000
Audit Hours	8,000	7,000
Unincorporated Business:		
Audited Returns	800	700
Audit Revenue	165,000	75,000
Audit Hours	2,600	2,200
Sales and Use Tax:		
Audited Returns	700	800
Audit Revenue	1,900,000	1,700,000
Audit Hours	30,000	40,000

Section VII -- Performance Auditing for Improving Management's Efficiency and Economy.

Case VII - 1. Increasing Revenue from Self Assessment Taxes, State of ABC

Audit Scenario 2. The Review and Testing of Management Control.

In Audit Scenario 1, the preliminary survey phase, the student should have come up with at least one tentative audit objective and possibly several more. He could also have made individual objectives or he could have made one combined objective, in a very tentative form, such as the following:

Can the Department of Revenue through improving the State's self assessment taxing system (causes) increase state revenue by as much as .2% or $2,200,000 (effects) by: (1) identifying and following up on non-filers, (2) improving the ease with which taxpayers fill out the forms and prepare the return, (3) relating Federal forms to state forms, (4) relating Federal taxes with State taxes, (5) providing adequate assistance to the taxpayer in the preparation of his return, and (6) increasing the number of returns audited (criteria)?

Each of the above criteria could have been used as a basis for a separate objective. Causes and effects, in this situation, relate directly to each of the criteria. In this scenario, then, only one audit objective needs to be stated. If causes or effects were related to more specific individuals or groups or to specific amounts then separate objectives should have been stated.

To keep this case within workable limits, all criteria have been related only to sales and income taxes.

As has been said several times, this stated objective is only a possible or tentative objective. Before the auditor would put forth much effort to obtain detailed evidence on the objective he had better be sure he has a firm audit objective. To firm up the objective, the auditor will have to have some evidence on each of the elements of the objective. He might also want to revise the objectives based on any additional evidence or information he obtains.

To obtain the evidence on the elements of the tentative objective he will review and test the actual operations of the tax assessing and collecting system. This process of testing actual transactions is often called "The Review and Testing of Management Control."

Additional Background Information

When the auditors started to review the management control system by testing a few transactions from beginning to end in order to collect evidence with which they could come up with a firm objective, they were interested in looking at a few tax returns. What they wanted to do was follow the process of the return from (1) the development of the tax form and instructions to (2) the original preparation of the return--with assistance when given--to (3) the return coming in to (4) the tax collecting system, to (5) the relating of the taxes assessed with withholdings, to (6) the relating of taxes assessed and collected with other related systems, to (7) the computer processing of the returns, to (8) the auditing of the return, to (9) the determination that taxes were collected from all taxpayers required to file, and to (10) the collection of delinquent taxes.

They were immediately told that the law setting up the Department of Revenue specifically stated that only certain persons were allowed to look at individual tax returns. And, according to their General Counsel, outside auditors were not included in the category of those who were allowed to examine the returns.

So they had to adopt new techniques to gather the evidence needed.

Since the purpose of the review and testing of management control is to firm up the audit objective, and not to go into a full scale examination, they only needed sufficient evidence from the management control system to determine whether to proceed with the audit or whether to stop.

Additional Evidence

Tax Forms and Instructions. The auditors reviewed the forms and instructions and found they had difficulty relating the forms to the instructions. They also determined that no relationship existed between the Federal forms and the State forms.

Original Preparation of Return. Since the auditors were unable to look at the tax returns and relate them to the assistance given, they decided to talk to several individuals and business managers in order to obtain their views as to the problems involved in the assessment of their taxes and the preparation of their returns. Some of these views were as follows:

1. "I do not reside in this state. Since my employer withholds for both states, I have asked him to withhold for the State in which I reside. My state makes it easy to file a return. All I do is to take my Federal return's adjusted gross income and start from there."

2. "I can't quite tell exactly how much sales taxes I should collect. For example, do I collect sales taxes on patent medicines, since medicines are exempt. The instructions are vague. I haven't been questioned on my views so I guess I have been doing what is right."

3. "I have a small business and don't make much money. I'm sure the State would not want me to pay a small business tax or even income taxes."

4. "I have not had much trouble paying my taxes. I go down to the Office of the Department of Revenue and they help me file my return. But, it does seem to me that they are more interested in collecting the maximum tax than in helping me file an honest tax return."

5. "Every time I turn around, the auditors are examining my sales tax return. They haven't collected any additional taxes in five years. Why do they keep examining the same individual?

6. "It seems to me that the instructions should have some tables to help me know if I have computed and paid the right tax."

Returns Coming into the System. The auditors observed the returns coming into the system in total but were unable to follow individual returns in the system. They did observe that the procedures appeared satisfactory and were in accordance with good internal control procedures.

Computer Related Efforts. The auditor had been told during the preliminary survey that the manager of the division felt that there were many problems in the computer related efforts. He could not relate withholding taxes to the tax form, the federal return with the state return, business taxes to sales taxes.

Auditing of the Returns. One of the tax auditors showed the auditor that the number of tax audits he made had been going up steadily but he had no increase in collections as a result of the audits. He said that he was allowed to choose any taxpayer's return he wanted to audit. But, he continued, if they start judging him on the amount of taxes collected instead of the number of returns he audits he is going to be in trouble. He suggested that the department obtain information on which types of returns need to be audited in order to produce the greatest improvement in taxes collected. He also said that he had a backlog of audits he wanted to do, and was certain that the audits would increase the revenue, but did not

have the time to do them if he wanted to keep his production quota up to the standards that he thought he should. He said that as far as he knew, desk audits were not considered in the number of audits made and he knew of no one making desk audits.

Finding Non-filers. The tax auditor in charge of the section pertaining to finding taxpayers who did not file returns said that they made a determined effort to locate every taxpayer who should file and did not file. He said this was done by developing internally related information on non-filers. He also said that they were not allowed to go outside of the Department to gather information on non-filers. He also said that as far as he knew, the Department had never made an attempt to determine whether non-profit organizations should pay income or sales taxes.

Collection of Delinquent Taxes. According to the section dealing with delinquent taxes, delinquent taxes arise because of a person filing a return and not paying the taxes, additional assessments of taxes upon audit, error in the return which causes an additional assessment, businesses which have collected sales and withholding taxes and then not paying or going out of business, and estimated taxes never paid.

He gave the auditors a copy of the information concerning the delinquent taxes collected during the past two years. (See Table II.)

Table II
Delinquent Collections

Action	Number	Amount	Number	Amount
	19XX		19XX - 1	
Collected	22,000	$7,000,000	18,000	$6,000,000
Written Off	8,500	800,000	8,000	800,000
Collected from prosecution	90	800,000	200	1,000,000

Required:

Develop a firm audit objective, in-so-far as possible, concerning evaluating the Department of Revenue for the possibility of increasing revenues from the self assessing tax system of the State of ABC.

Section VII -- Performance Auditing for Improving Management's Efficiency and Economy.

Case VII - 1. Increasing Revenue from Self Assessment Taxes -- State of ABC.

Audit Scenario 3. The Detailed Examination.

Upon testing the management control of the Department of Revenue, the auditor could refine his possible audit objective into a fairly firm audit objective. He might want to add additional criteria which would improve the original tentative objective.

A possible objective would be stated somewhat as follows:

Has the Department of Revenue of the State of ABC collected (causes) within $5,000,000 of the maximum revenue which should have been collected (effects) by:

1. Having made it easy for the taxpayer to file his income or sales tax returns through:

    a. Revised state income tax forms which tie into Federal income tax forms,

    b. Properly communicated information concerning tax laws and requirements concerning: (1) resident taxpayers, (2) non-resident taxpayers, (3) individual taxpayers, (4) corporate taxpayers, (5) unincorporated business taxpayers, and (6) sales tax taxpayers, and

    c. Adequately provided help for taxpayers in filing their returns either as instructions to forms or taxpayer assistance.

2. Having made it difficult for a taxpayer to not file and accurately assess his taxes either for sales or income taxes:

    a. By having developed computerized lists of taxpayers who have had income tax withheld and

(1) Relating list to Federal returns when possible

(2) Identifying and following up non-filers,

b. By having developed computerized lists of sales tax taxpayers and matching returns with list,

c. By having developed lists from inside and outside the Department of sources of possible taxpayers who are presently not paying any of these taxes,

d. By having promptly determined whether a business is non-profit and therefore exempt from income taxes but not sales taxes or profit and liable for both sales and income taxes,

e. By having field audited returns selected by computer from standards which determine the possibility of maximum benefits for dollars invested,

f. By having desk audited selected random returns and notifying taxpayers that their returns have been audited and accepted as correct or additional tax is due, and ,

g. By having immediately started collection procedures when a tax becomes delinquent.

(Criteria)

Evidence Gathering, Analyzing, and Summarizing

Tying in to Federal Returns. The auditors obtained a special report prepared by a committee for the Commissioner of Revenue. The report recommended that the State adopt a program which would relate the State income tax law directly to the Federal income tax law. Before this could be done, however, it would be necessary to revise the current State law.

The report estimated that from taxpayers currently filing returns there would be no direct increase in revenue by amending the law and making the state income tax provisions comparable with the Federal provisions. It did estimate, however, that because of the ease of preparation of the returns by the taxpayers from the revised forms, taxpayers who at present did not file because of the complicated tax returns and instructions would pay an additional $500,000 per year.

Properly Communicating Information and Assisting Taxpayers. As was found in the preliminary survey, any self assessing tax system demands that the taxpayer understand the purpose behind the tax law and the procedures for accomplishing the purpose. Since the measure of success in any self assessment tax system is voluntary compliance, then the measure of voluntary compliance will depend upon the knowledge of the law, regulations, and enforcement procedures of the taxing system.

A self study of the Department of Revenue made approximately five years previously, and when the assistance program was first started, showed that the revenue of the State would increase a minimum of 3% if the information concerning taxes and the tax law were widely distributed, if the laws and regulations were thoroughly understood, and if the forms and instructions were understandable and not too complicated. A limited review of the forms and instructions showed that almost any high school graduate and most college graduates had difficulty in understanding the instructions and preparing the returns.

The auditor found the Department had done very little in the way of:

1. preparing and distributing information which communications and news media could use to publicize the individual income tax, the sales tax, and the availability of tax assistance from the Department,
2. providing instructions and training to selected state, city, and industry employees to enable them to help their fellow employees prepare tax returns,
3. discussing tax matters before trade associations and professional groups, and
4. ruling on technical interpretations of tax laws.

Information from the persons in the Department of Revenue who gave assistance to taxpayers confirmed the difficulty of taxpayers preparing returns.

Additional information obtained by the auditor from the employees of the Department showed that the Department's program of public assistance was almost entirely of the taxpayer assistance type--75% income taxes and 25% sales taxes. Little information was provided to the public concerning who should file, when they should file, and what is being done to improve the ease of filing and computing taxes, except what was found in the instructions to the returns. Very little information, other than in the forms and instructions, was available to the businesses which collected and filed sales tax returns, even though approximately 35% of the revenue came from sales taxes.

The employees who conducted the limited assistance program said that the questions coming to them were almost always the same questions. They suggested that the department make available to the public the answers to the most often asked questions concerning both income taxes as well as sales taxes. This would be in addition to information generally needed to file the tax return.

The tax auditors said that when they audited returns the errors they found on the returns were almost always of the same type. They raised the question, "why can't this information be distributed to the taxpayers and stop all of this need for us to catch it on an audit. It would increase the efficiency of the department and in most cases would increase the revenues to the State?"

Based on the analytical techniques used in the report to the commissioner, the auditors made an analysis which showed that if the department increased the information and taxpayer assistance program of the state, without any additional increase in costs, there was a good probability of immediately increasing revenues by an additional 1% instead of the 3% suggested by the

study group. This amount would be in addition to any obtained as a result of better enforcement procedures.

Computer Operations

The auditors obtained information from several states and from the Internal Revenue Service which showed that they placed all tax data and related information in the computer files, which thus contained a continuously updated record of each taxpayer's account. These sources said that all settlements with taxpayers are made by computer processing of the master file accounts. The data are used for accounting records and for issuing refund checks, bills, or notices; answering inquiries; classifying returns for audit; preparing reports; and other processing and enforcement activities. Other uses are subtracting delinquent taxes from refund claims, subtracting unincorporated business taxes due from persons who claim refunds on their individual income tax returns, using the addresses as a current mailout list, and retrieval of information for audit and other compliance action.

Several states reported that their costs for such a system had been paid for many times over. The costs would be recovered in identifying non-filers and collecting taxes from them along with improving revenues. The estimate for the benefits from this activity was an immediate $5,000,000 per year increase.

The head of the Data Systems Division said that if he were given permission and the loan of a few high class clerical personnel for six months, he could program the computer to accomplish the above activities with very little additional costs.

Developing Lists from Within and Outside of the Department of Revenue on Possible Business Tax Non-filers

The Department of Revenue maintains a separate index file of businesses which complied with the personal property tax. This tax is levied only on

business property. Each year businesses file returns and declare the amounts of their personal property. The Department makes tax assessments on the basis of these declarations.

The index for the personal property tax, arranged by county, city, and street address, accounts for every business address in the State.

From the personal property tax index file and the various telephone directories, the auditors selected 100 businesses and, with the help of the department's personnel, ascertained if these firms were registered for applicable sales, withholding, and franchise taxes. The results of the tests were:

	Number and Percent
Registered for all applicable taxes	84
Unregistered for one or more taxes	13
Claimed exemption from franchise tax but had no application on file	3
	100

Of the 13 businesses which were not registered for one or more taxes:

--None had paid the taxes in question

--9 had moved from the addresses shown in the personal property tax records and could not be located.

--Three were unincorporated businesses and claimed they did not gross $5,000 (minimum for filing).

--1 appeared liable for tax and was so advised.

Personal property tax records indicated that most of the 13 businesses were small firms which had been in operation from 3 to 8 years. During this time, most had paid personal property tax, but no other taxes, to the State.

The procedures for identifying new businesses and obtaining their compliance with personal property tax did not include taking steps to make sure that the businesses also registered for other taxes. Similarly, businesses

that registered for sales, withholding, or franchise taxes were not made specifically aware of personal property tax requirements, because the registration form does not include personal property information.

At the auditor's request, Revenue Department officials experienced with following up on non-filers listed the reasons for non-filing in what they believed to be the order of frequency, from most to least frequent, as follows. The non-filers:

1. Worked outside the State and the employer did not withhold tax, the filer did not understand procedures requiring the filing of a declaration.

2. Did not realize a tax return should have been filed at the end of the year, because tax was withheld or a declaration was filed.

3. Did not know there was a state income tax.

4. Was employed by a non-profit group, such as a church, and thus thought they were exempt.

5. Was employed in the State but thought he or she was exempt because of living and paying taxes in another state.

6. Maintained a permanent legal residence in the state but lived outside of the state.

An analysis by the auditors showed that better coordination of the tax collection activities in identifying non-filers would net the State an additional 1/2 of 1% of revenue.

The auditors also made an analysis from City and County offices concerning such items as cocupancy permits, construction contracts, and firms incorporating. They also reviewed the yellow pages of the telephone book and other sources of construction contracts to see if new businesses were coming in to the taxing system which at present were not paying either sales or other business taxes.

Their figures showed that about 2 out of every hundred reviewed were not on the tax lists. They estimated an increase of 1% in sales or business taxes if this source of non-filers was fully exploited.

From the above review, they also found that about fifty per cent of the non-profit type organizations were not in the records as being exempt from either sales or income taxes. They made no analysis of the possibility of additional revenue, but knew it would be considerable, especially in the sales tax area.

Auditing Returns

As was found in the review and testing of management and internal controls, the Department was doing a fairly good job of doing what they were doing. Yet, they had no program tied into the desk auditing of returns for the "policeman on the beat" purpose of letting the taxpayers know that someone was looking at their returns. They also had no program for determining the best type of return to examine in order to obtain the maximum benefits for dollar expended. The commissioner of revenue stated that he planned to adopt a new program, tied into the computer, to select the type of returns which would provide the maximum benefit. He did not know exactly when this program would get started.

While no means was available to accurately estimate the increase in revenue from this new program, or if there would be any increase, the auditors, from a statement of the commissioner of revenue, estimated that about $1,000,000 a year additionally could be collected by an auditing program geared to the purpose of increasing benefits for dollars expended.

Delinquent Taxes

The Commissioner of Revenue said that the collection of unpaid taxes is the ultimate enforcement action taken to equitably administer the State's tax system. It is the teeth of the system.

The unpaid sales and income taxes for the past two years was as follows:

Delinquent Tax Accounts Receivable

Tax	June 30, 19XX		June 30, 19XX - 1	
	Number	Amount	Number	Amount
Individual Income	85,000	$11,900,000	90,000	$9,000,000
Sales	16,000	6,000,000	16,000	5,000,000
Employee Withholding	9,600	2,500,000	8,500	1,800,000
Unincorporated	5,500	600,000	3,000	400,000
Corporation	5,000	1,100,000	2,500	850,000

Note: Numbers are rounded to nearest 100, Amounts to Nearest $100,000.

When delinquent tax accounts are referred to revenue officers, their actions include: the use of dunning notices; telephone or field contacts with the delinquents; legal attachment of salaries, wages, bank accounts, and property; and referral to the General Counsel for prosecution. At his discretion, a revenue officer may take these actions successively or selectively, depending on his evaluation of the individual's or business' tax paying record.

From his analysis of the above information and the information on delinquent taxes in his preliminary review of management control, the auditor decided that the principal problem of delinquent taxes is the backlog of cases. The collection effort is relatively successful once undertaken; for every dollar of delinquent taxes written off during the past fiscal year $9 were collected.

In discussing the above information with the revenue officers, they said that earlier contact could result in fewer writeoffs and prompter collection of taxes. Many writeoffs occur because by the time the revenue officer initiates action the delinquent cannot be located or has no remaining assets.

The revenue officers also stated that from an analysis made two years ago, $2,000,000 in income taxes were refunded to individuals who owed the State $1,800,000 in taxes for prior years.

The auditors estimated that $5,000,000 in additional revenue could come about through improved delinquent taxes procedures.

Required:

Prepare a conclusion to a report in summary form for submission in the report to the Governor and State Legislature. The conclusion should show the increase in revenues, by certain actions taken by specific groups, following specific guidelines.

Section VII -- Performance Auditing for Improving Management's Efficiency and Economy

Case VII - 1. Increasing Revenue from Self Assessment Taxes -- State of ABC.

Audit Scenario 4. The Report.

By reviewing and summarizing the evidence on the audit objective, as reflected in his working papers, the auditor would be able to come up with a conclusion in his report somewhat as follows:

The State of ABC'and the State's Department of Revenue could have collected a minimum of an additional $20-25 million in sales and individual and business income taxes if they had developed and carried out the following programs:

1. Made it easier for the taxpayer to file his income or sales tax returns by:

   a. Having recommended to the Governor and State Legislature and having them revise the state law so that the income tax forms and requirements would tie into the federal tax returns.

   b. Having properly communicated information concerning the tax laws and requirements concerning: (1) resident taxpayers, (2) non-resident taxpayers, (3) individual taxpayers, (4) corporate taxpayers, (5) unincorporated business taxpayers, and (6) sales tax taxpayers, and,

   c. Having adequately provided help to taxpayers in filing their returns by providing understandable instructions to forms and by providing taxpayer assistance,

2. Having made it difficult for a taxpayer to not file and accurately assess his taxes either for sales or income taxes by:

a. Having developed computerized lists of taxpayers who have had income taxes withheld and (1) relating to federal return when possible and (2) identifying and following up on non-filers.

b. Having developed a computerized list of all possible sales tax taxpayers and matching returns with the list.

c. Having developed a list from sources both inside and outside of the Department of Revenue of possible business tax taxpayers who are not presently paying sales or income taxes.

d. Having promptly determined whether a business is non-profit and therefore exempt from income taxes but not sales taxes or promptly determined that the organization consider as non-profit is really a profit business and subject to both sales and income taxes.

e. Field audited returns selected by computer from standards which determine possibility of maximum benefits for dollar invested,

f. Desk auditing selected returns and notifying taxpayer that his return has been audited and accepted as correct or audited and return is incorrect, and,

g. Immediately started collection procedures when a tax becomes delinquent.

In his report, the auditor would present the evidence he gathered in order to support the above conclusion

Required: (1) Does the evidence as presented in Scenario 3 support the above conclusion to the objective?

(2) What additional information, other than evidence would be presented to the reader in order for him to better understand the total audit of self assessment revenues?

3. Prepare a recommendation to the Governor and State Legislature concerning improved tax collecting procedures.

Section VIII -- Performance Auditing for Determining the Effectiveness of a Program

Case 1 - The Effectiveness of the Local Jail Program in the City of X.*

Audit Scenario 1 - The Preliminary Survey.

Preliminary Information. City X was a fairly large city in the State of Y. Its form of government was that of a mayor and city council, with each council member overseeing a particular functional area of the city's operations. The council member who had the responsibility for public safety decided that he had better discuss with the mayor the anxiety he had found among several citizens concerning the local jails. He had found that the citizens believed that all of the inmates were going to be released from the jails and turned loose on society. The city had five local jails tied in to the five precincts of the police department.

The mayor suggested to the member that if the problem was serious enough that it could be discussed at the next council meeting. He arranged for the topic to be placed on the agenda for the next meeting.

At the meeting, other council members stated that they also had discussed the topic with their constituency and they seemed to have the same concern. It came out at the meeting that some localities were being required to turn the inmates loose because of the conditions of the local jails. Further discussion brought out that all members of the council, including the mayor were in favor of having an audit made to determine whether the local jails

* Note: Much of the data in this case has been adapted from U. S. General Accounting Office. "Conditions in Local Jails Remain Inadequate Despite Federal Funding For Improvements." Washington, D.C., April 5, 1976.

were effectively accomplishing the purpose for which they were established.

The Council authorized the Mayor to contract with a local firm of certified public accountants for this audit. The local firm of CPA's was familiar with the operations of City X because they made the financial statement examinations each year and had made several special studies for the City. They were asked to come up with their results as soon as possible.

The auditors decided that they had better find out about the conditions of local jails on a nationwide basis before they started to gather information on the specific conditions of the local jails in the City of X. The following is a summary of the information they found:

> "The need for jails will not be completely eliminated even if all communities avail themselves of such alternatives as pretrial release, halfway houses, probation, and parole, since there will always be some individuals who either are not willing to accept the constraints in community-based programs or would present too great a risk to public safety if placed in such a program."
>
> The "1970 National Jail Census" 1/ stated that, of the 3,319 local jails which served counties or were located in municipalities of 25,000 or more, 86 percent provided no exercise or recreation facilities and almost 90 percent had no educational facilities. A followup survey 2/ to the "National Jail Census" indicated that rehabilitative programs were very limited. For example, about 80 percent of the jails provided no inmate counseling, remedial education, vocational training, or job placement. A report by the National Advisory Commission on Criminal Justice Standards and Goals 3/ also commented on the poor physical conditions of jails and their lack of adequate services to those incarcerated.
>
> Many jails need replacing as illustrated in the following comments from selected recently issued comprehensive State plans.

1/ "1970 National Jail Census," Law Enforcement Assistance Administration, Department of Justice, Feb. 1971.

2/ "Survey of Inmates of Local Jails 1972: Advance Report," Law Enforcement Assistance Administration.

3/ "Corrections, "National Advisory Commission on Criminal Justice Standards and Goals, 1973.

"-- Many local jails are old, deteriorating, and unsafe and are located in areas too small in population and too short in resources to provide adequate correctional services.

-- Inspection of facilities indicated a state of general deterioration compounded by other short comings, such as lack of fire extinguishers, lack of fire exits, and lack of operative fixtures -- toilets, lavatories, lighting, beds, mattresses, heating, windows, painted walls, and showers. A survey of basic services provided to the offender -- meals, exercise, and special custody -- revealed an alarming absence of these services as well as a lack of ability to segregate offenders by age, sex, type of offense, or other special custody needs.

-- For the most part, the local facilities are generally dirty, in need of paint and repair, poorly heated and ventilated, and sometimes fail to provide adequate security. As a whole, the county jails can best be described as "warehouses of human flesh" in which little or no rehabilitation efforts are made except for maintenance work.

-- Many county jails and lockups are substandard. These facilities present health and safety hazards for both prisoners and staff, and many do not provide secure custody due to structural or equipment problems. In most county jails, work release is the only treatment program available.

-- The majority of (the State's) jails are in such an advanced state of disrepair that the introduction of effective rehabilitation programs is impossible."

"The money needed to provide adequate facilities and services to the jail population is probably much greater than local and State governments are willing to provide, especially when the taxpayers must authorize such expenditures. LEAA funding represents a limited source for the amount needed for the entire criminal justice system. In addition, for a grantee to be eligible for LEAA block grant funds, the Federal grant must be matched by State and/or local funds. Therefore, the use of LEAA funds for any particular aspect of criminal justice is affected by the extent to which the State and local governments desire to or are capable of addressing the problem."

Criminal justice authorities, including the 1967 President's Commission on Law Enforcement and Administration of Justice, the National Advisory Commission on Criminal Justice Standards and Goals, and the National Clearinghouse on Criminal Justice Planning and Architecture, believe that many persons incarcerated in local jails are not a danger to society and should not be in jail. According to the National Advisory Commission, offenders are perceived as stereotyped prisoners regardless of the seriousness of the offense. Authorities stress the need to develop a broad range of alternatives to incarceration of the nonviolent offender.

Along these lines, LEAA and States are directing their effort to community-based corrections -- alternative measures emphasizing community participation to reduce involvement of offenders with the institutional

aspect of corrections. Although this solution may reduce the jail's population, it does not solve the problem of how to provide an adequate facility to those considered ineligible for release.

State-operated local jails

In 1973 the National Advisory Commission on Criminal Justice Standards and Goals reported that the most striking inadequacy of jails is their "abominable" physical condition. Recognizing that few local communities can be expected to have sufficient resources to resolve the problem and provide appropriate services, the Commission recommended that States take over the operation and control of local institutions by 1982.

As of late 1972, only five States operated and controlled all of their correctional facilities -- Alaska, Connecticut, Delaware, Rhode Island, and Vermont. Each has only a few facilities. For example, Rhode Island has one location where it incarcerates all offenders, from pretrial to those with life sentences. Delaware has jails in 3 different communities, and Connecticut has 11 correctional facilities.

Regional-operated jails

The regional jail concept has been suggested as a solution to the local jail problem for some time. The 1967 President's Commission on Law Enforcement and Adminstration of Justice and the 1973 National Advisory Commission of Criminal Justices Standards and Goals referred to this concept under which one jail would serve multicounty or citycounty needs. With the consolidation of the jail population from serveral counties, the size of the operation could justify a better physical plant and some rehabilitation services.

Barriers that are difficult to overcome confront efforts to regionalize jails. With emphasis on community-based corrections, criminal justice authorities believe the offender should be kept in the community into which he will be reintegrated. With a centralized facility serving multiple communities, keeping the individuals involved in their home communities would be difficult.

A second barrier acknowledged by criminal justice experts and referred to continually by law envorcement personnel contacted is a transportation problem. Under a regional system, the offenders would be subject to constant movement, particularly in the pretrial stage. The transporting of inmates would require security guards. Some of the local sheriffs indicated that they were operating with an inadequate staff; thus, because of the security required to transport offenders, a regional jail would further stretch their limited resources and would reduce the time available for actual enforcement activities.

One variation of the regional jail concept that appears to have more promise is the combination city-county jail. If a city and contiguous county determine that the offender population is large enough to justify combining the correctional facilities of only the two jurisdictions, the

above mentioned barriers do not appear to be major problems. LEAA might study the feasibility of encouraging appropriate cities and counties to consolidate their operations.

The auditor requested the City Attorney to prepare for him an analysis of the legal standards for maintenance and services which are required to be provided prisoners in local jails. He gave the auditor the following analysis:

ANALYSIS OF LEGAL STANDARDS FOR
MAINTENANCE AND SERVICES REQUIRED
TO BE PROVIDED PRISONERS IN LOCAL JAILS

Among basic requirements, courts have included: (a) the essential elements of personal hygiene (e.g., soap, towel, toothpaste, toothbrush, and toilet paper); (b) clothing and blankets; (c) access to sinks (including hot water) and showers; (d) clean laundry (or use of laundry facilities) provided on a reasonable basis; (e) essential furnishing (elevated bed, mattress, a place to sit, and sanitary toilet facilities); (f) adequate drinking water and diet, prepared by persons screened for communicable disease in kitchens meeting reasonable health standards; (g) shelter; (h) adequate (but not excessive) heat; (i) exposure only to reasonable noise levels; and (j) light and ventilation. To the extent isolation or segregation cells may still be used at all, for punitive or administrative reasons (including a prisoner's own protection), such detention facilities should be so designed as to allow custodial (preferably, medical or psychiatric) supervision. Prisoners may not be housed in unsanitary or permanently overcrowded cells, or under conditions which may be reasonably anticipated will endanger personal safety or sanity. See, e.g., these Arkansas cases: Finney vs. Ark. Bd. of Corr., 505 F2d 194 (8th Cir. 1974) (Finney), aff'g in part, rev'g in part Holt v. Hutto, 363 F. Supp. 194 (E.D. Ark. 1973), modifying Holt v. Sarver, 442 F2d 304 (8th Cir. 1971) (Holt III), aff'g 309 F. Supp. 363 (E.D. Ark. 1970), (Holt II), 300 F. Supp. 825 (E.D. Ark. 1969), (Holt I).

While local jails may be exempt from compliance with local health and housing codes, prison conditions are unlikely to meet minimum community standards of decency if they totally fail to comply with essential health, safety, and housing (particularly space, ventilation, plumbing, heating, electricity, or sanitation) regulations. Cf. Gates v. Collier, 501 F.2d 1291 (5th Cir. 1974), adopting and aff'g 349 F. Supp. 881 (N.D. Miss. 1972). Similarly, courts have ordered that prison kitchen standards be made to conform with State board of public health restaurant standards. Little v. Cherry, 3 Pris. L. Rep. 70 (E.D. Ark. Jan. 31, 1974).

While the nature of appropriate medical treatment falls within the sound discretion of medical personnel, prisoners may not be deprived of competent medical and dental care. Gates v. Collier, supra; Nerman v. Alabama, 349 F. Supp. 278 (M.D. Ala. 1972). Adequate supportive facilities should be available -- not necessarily within the prison -- to meet

reasonably foreseeable medical and dental needs, including pharmaceutical and medically prescribed dietary requirements. Finney, supra, 202-204; Steward v. Henderson, 364 F. Supp. 283 (N.D. Ga. 1973).

Medical care must include treatment of drug dependent prisoners, or medically supervised drug detoxification. Wayne County Inmates v. Wayne Co. Bd. of Commr., 1 Pris. L. Rep. 5, 51, 186 (Mich. Cir. Ct. 1971, 1972), substantive issue not disputed on appeal, sub nom., Wayne County Jail Inmates v. Lucas, 216 N.W. 2d 910 (Mich. 1974). Differences in services afforded based on anticipated length of imprisonment have been permitted, provided at least that classification of services afforded prisoners is rational, is based on differences in sources of available funding, and does not deny basic medical needs. Kersh v. Bounds, 501 F.2d 585 (4th Cir. 1974), cert. denied, _____ U.S. _____, 43 U.S.L.W. 3452 (U.S. Feb. 14, 1975).

Reasonable access to the courts may not be denied or obstructed. Johnson v. Avery, 393 U.S. 483 (1969). Facilities must be adequate to permit confidential attorney-client visits. A basic collection of representative legal materials (including case law and search materials) should be available, at least on a loan basis. Gilmore v. Lynch, 319 F. Supp. 105 (N.D. Calif. 1970), aff'd under the name of Younger v. Gilmore, 404 U.S. 15 (1971). Library size and number of required copies of basic materials necessarily depend on the size and character of the institution. If materials may not be removed to the cells, size and furnishings should be adequate to afford prisoners a reasonable opportunity for research and study. Cf. White v. Sullivan, 368 F. Supp. 292 (S.D. Ala. 1973); Stone v. Boone, 3 Pris. L. Rep. 285 (D. Mass., Oct. 10, 1974) (consent degree).

Prisoners must be permitted to follow the tenets of their religion, including the right to conform to dress and dietary requirements, insofar as their religious beliefs can be reasonable accommodated. Ross v. Blackledge, 477 F. 2d 616 (4th Cir. 1973). Chapel or similar facilities and religious materials must be adequate to accommodate the needs of minority faiths, if available to others. Pitts v. Knowles, 339 F. Supp. 1183 (W.D. Wis. 1972), aff'd 478 F.2d 1405. Religious privacy must be protected with services being held in places where prisoners not choosing to attend are not made unwilling participants. Cf. Edwards v. Davis, 3 Pris. L. Rep. 54 (D.N.C. Dec. 11, 1973) (consent degree).

Prisoners are not entitled to benefits not generally recognized as rights enjoyed by the community at large. James v. Wallace, 382 F. Supp. 1177 (M.D. Ala. 1974). Adult education is not provided as a matter of right, and except as otherwise required by local law, rehabilitative services including educational or job training programs need not be provided for adult prisoners. But cf. Holt III, supra, 378-379; Finney, supra, 209.

Moreover, where local jails are used to house persons detained under civil commitment or pretrial detainees unable to raise bail, facilities must be designed and equipped to meet additional requirements. The detainee is presumed not guilty of criminal misconduct; he may not be punished without or before trial. He may be held only under conditions comprising the least restrictive means of achieving the purpose requiring and justifying

his detention. Hamilton v. Love, 328 F. Supp. 1182, 1192 (E.D. Ark. 1971). Note, "Constitutional Limitations on Pretrial Detention," 79 Yale L. J. 941, 949-950 (1970). Detention may not be more punitive than incarceration within the State's penal system; it should not be substantially more burdensome than detention in other State or Federal institutions used for the same purpose, in the same area. Rhem v. Malcom, 507 F.2d 333, 336-337 (2d Cir. 1974) (Rhem III), aff'g in part, rev'g in part 377 F. Supp. 995 (Rehm II), 371 F. Supp. 594 (Rehm I) (S.D.N.Y. 1974); Inmates of Suffolk County Jail v. Eisenstadt, 360 F. Supp. 676 (D. Mass. 1973), aff'd 494 F. 2d 1196 (1st Cir. 1974), cert. denied 419 U.S. 977 (Eisenstadt).

Detainees committed under civil commitment for psychiatric evaluation or treatment should be committed to facilities designed to provide suitable professional treatment and evaluation. Cf. O'Connor v. Donaldson, _____ U.S. _____ 43 U.S.L.W. 4929 (U.S. June 26, 1975) vacating Donaldson v. O'Connor, 493 F.2d 507 (5th Cir., 1974); see the latter, and cases cited therein, 518-527.

Whether or not the courts will eventually require classification of detainees, they have recognized that maximum security conditions cannot be justified as "the least restrictive means" of assuring that the great majority of pretrial detainees will appear at trial. In individual cases, courts have held that detainees were entitled: (1) to have privacy (including, in one case, the right to be locked in as well as out of the cell), Rehm I, supra, 628, in others, to single cell occupancy, Eisenstadt, 360 F. Supp. 676; (2) to associate with other detainees (to assemble, e.g. for religious services, United States ex rel. Jones v. Rundle, 453 F.2d 147 (1971)); (3) to enjoy access to a broad range of reading and writing materials, (Inmates v. Peterson, 353 F. Supp. 1157, 1168-1169 (E. D. Wisc. 1973) (Peterson)); (4) to engage in recreational activities and to use recreational facilities, (Rehm I, supra, 594); and (5) to have outside communication by telephone (Brenneman v. Madigan, 343 F. Supp. 128, 141), letter (Peterson, supra, 1167-1168), and personal contact, including visits by children (Brenneman, supra) and, in one case, conjugal rights arranged in a discreet and circumspect manner (Government v. Gereau, 3 Pris. L. Rep. 20 (D.V.I. May 30, 1973)).

Courts have ordered the reduction of jail population, the closing of nonconforming jails, or substantial alteration of existing facilities, including: (1) removal of cells to provide recreational areas, (2) dismantling of prisoner-visitor telephone systems and walls separating prisoners from their visitors, and (3) the installation of outside telephones. E.g., see Rhem II, supra. Generally, detainees have a right to participate in training or educational programs offered other prisoners. Wilson v. Beame, 380 F. Supp. 1232 (E.D.N.Y. 1974). And one recent case has held that a pretrial detainee participating in a State-approved, medically supervised (methadone) drug treatment program prior to arrest is entitled to continue the prescribed course of treatment, and could not be subjected to forced (withdrawal) detoxification even though medically supervised. Cuknik v. Kreiger, 3 Pris. L. Rep. 221 (E.D. Ohio, July 16, 1974).

After obtaining the general information from nationwide sources concerning local jails, the auditors then contacted the Council Member in Charge of Public Safety concerning any information he could provide concerning the local jails.

From the files of the Commissioner of Public Safety, the auditors obtained the following information:

> The local ordinances provided that the local jails be under the supervision of the Captain in charge of the local precinct. There were five precincts and five local jails. The Commissioner of Public Safety, the Council Member, only had general supervision of the activities of the local jails. His primary objective was to help the Captain in the adoption of budgets, communicate any extraordinary needs to the Council as a whole, and in general represent the problems of public safety.
>
> The ordinance also said that the jails were to be used for committing persons who are awaiting trial, who have been sentenced to less than one year, and who are to be held longer than 48 hours. Under 48 hours, the person can be held in temporary lockups. Over one year, state law requires that the inmate be held in a State Penetentiary.
>
> The City Attorney had recently ruled that "committing" meant more than just a place to stay. According to him, recent court cases implied that while housed physically in a jail, the inmate is entitled to other requirements than just a roof over his head. Some of these other requirements include such things as both sanitary, secure and private physical facilities as well as social, recreational and educational services.

City of X
Data Re-City Jails
1976

Characteristics	Jail in Precinct 1	2	3	4	5
General -					
Year Built	1974	1931	1910	1893	1938
Current Capacity	31	39	36	45	19
Number of Employe s	4	5	5	5	3
Annual Budget	$65,500	$60,000	$55,500	$62,500	$32,500
			Percentages		
Type of					
Awaiting Trial	68.2	60.0	85.6	64.9	95.5
Serving Sentence	31.8	17.5	8.5	31.4	4.5
Other	--	22.5	5.9	3.7	--
Type of Offense					
Alchol Related	25.-	10.0	35.9	45.5	40.0
Traffic Related	20.5	--	2.0	14.2	20.0
Sub-total	45.5	10.0	37.9	59.7	60.0
Other felonies and misdemeanor	54.5	70.0	51.0	40.3	38.0
Other		20.0	11.1	--	2.0
Length of Stay					
Less than a day	47.7	32.5	26.8	42.5	37.8
1-2 days	34.1	30.0	34.0	21.7	46.7
3-6 days	6.8	25.0	22.9	26.1	4.4
Subtotal	88.6	87.5	83.7	90.3	88.9
7-30 days	11.4	10.0	15.7	5.2	4.4
31-90 days	--	2.5	0.6	3.7	4.4
Over 91 days	--	--	--	0.8	7.3
Average length of stay	3.0	4.0	4.0	4.5	7.0
Sex					
Male	93.2	85.0	91.5	93.3	84.4
Female	6.8	15.0	8.5	6.7	15.6
Age					
Under 18	6.8	17.5	17.0	1.5	6.7
18 - through 29 years	70.5	20.0	54.9	56.0	37.8
30 years and over	11.4	30.0	25.5	42.5	53.5
Unknown	11.3	32.5	2.6	--	2.2
Residence					
Within City	77.3	90.0	75.8	51.1	40.0
Neighboring	4.5	5.0	1.3	14.3	22.2
Other	18.2	5.0	22.9	34.9	37.8

Required:

Do you have enough information to state a possible audit objective for the audit of the effectiveness of the operations of the local jail program for the City of X?

If you do not, state and list the additional information you will need.

If you do, state the tentative audit objective.

Section VIII -- Performance Auditing for Determing the Effectiveness of a Program

Case 1 -- The Effectiveness of the Local Jails Program for the City of X.

Audit Scenario 2 -- The Review and Testing of Management Control

Sufficient information has been obtained in the Preliminary Survey to come up with an audit objective somewhat as follows:

Has the City of X, through its various police precincts administered (causes) in an effective manner its local jail program for committing persons who are awaiting trial, who have been sentenced to less than one year, or who are being held for more than 48 hours (effects) by providing adequate physical facilities and adequate rehabilitation services (criteria)?

Obviously, the terms "adequate physical facilities" and "adequate rehabilitation services" will have to be defined before the auditor can use them as a basis for measuring the effectiveness of the programs. So, the auditor would have to obtain sufficient evidence to convince himself that the criteria are adequate for measuring the results of the program.

Additional Background Data.

In order to obtain a desirable standard for measuring the program's goals, the auditor inquired of the Commissioner of Safety whether he had standards for evaluation of the conditions of the local jails. He replied that he had none and knew of no other standards which were generally accepted nationally.

He did say, however, that several associations or groups have issued advisory standards or discussed characteristics for local jails. After

obtaining this material, the auditor decided that there were two major classifications of standards: (1) physical conditions and (2) inmate assistance. Under physical conditions, he also found that there were four classifications: (1) inmate security and safety, (2) sanitary conditions, (3) inmate comfort and rehabilitation, and (4) privacy.

Under the category of inmate security and safety, he determined he must assess whether the jails had (1) populations not exceeding capacity, (2) single occupancy cells only, (3) adequate segregation of offenders by sex, age, and degree of violence, (4) operable emergency exits and fire extinguishers, (5) operable cell doors, (6) matrons present for female offenders, and (7) no drunk tanks.

To assess the sanitary conditions, he considered whether cells had operable toilets and wash basins and whether showers were clean and worked. He also considered the availability of such personal items as soap and toothpaste and the cleanliness of such things as blankets, sheets, and towels. To assess inmate comfort and rehabilitation, he considered whether dining facilities were separate from the cell blocks and whether such things as recreation facilities, ventilation, and lighting were adequate. Regarding privacy, he felt he must assess such things as whether visiting space was separate from the cells and whether there was a private area where the prisoners were searched when first imprisoned.

For inmate assistance, he decided that he could use the National Advisory Commission's standards that local correctional facilities provide activities oriented to the inmates' individual needs, personal problem-solving, socialization, and skill development. The Commission recommended that these activities include:

-- Education programs available to all residents in cooperation with the local school district.

-- Vocational programs provided by an appropriate State Agency.

-- A job placement program operated by State employment agencies and local groups representing employers and local unions.

-- Counseling.

Testing Management Control

The auditor decided that he must follow through one individual from arrest to incarceration, to trial, to sentencing, and then to incarceration to see the actual conditions of the operations of the management control system.

As it so happened, the person selected happened to be a young woman arrested on a drug charge and held in the fifth precinct jail. In this small jail they had no separate facilities for males and females, no matron on duty during the arrest, and the cells were of the multiple occupancy type. They did not issue sheets or pillow cases, and the blankets issued were not cleaned before reissuance. Likewise, they had no privacy for search on entry, no space for private conversations, and visitors were brought to the cell to visit since they had no private visitors area. She was held in these conditions for forty eight hours before the judge released her on bail.

The auditor decided that he would not wait for this case to go to trial and possible sentencing, since the conditions in the jail would not change.

Required:

Develop a firm audit objective with criteria which are acceptable and measurable, with causes which can be pinpointed in order to make recommendations, and the effects. Consider such factors in the criteria area as

ability to measure the effects, acceptance of the criteria by the mayor and city council. In the cause area, the mayor and city council will need a recommendation for possible future action. Consider the causes at the various levels, not only within the jail operations, but outside of them. Would you plan to measure the effects from a cost-benefit relationship or will you determine whether the jail operations are effective or ineffective?

Section VIII -- Performance Auditing for Determining the Effectiveness of a Program

Case 1. The Effectiveness of the Local Jails Program for the City of X.

Audit Scenario 3. The Detailed Examination.

The student should have been able to come up with an objective for the detailed examination somewhat as follows:

> Has the City of X, including the Mayor and City Council, the local jail administrators, and other paid or non-paid participating groups, in carrying out their responsibilities for providing local jails in which to commit persons for longer than 48 hours, to hold persons awaiting trial, or to commit sentenced prisoners for up to one year (causes) been ineffective (effects) because they have not provided adequate physical conditions and inmate assistance. Adequate physical conditions and inmate assistance are further defined as follows:
>
> A. Adequate physical conditions should include:
>
> 1. Inmate Security and Safety
>
> a. Populations not exceeding capacity,
>
> b. Single occupancy cells only,
>
> c. No drunk tank,
>
> d. Adequate segregation of offenders by sex, age, and degree of violence,
>
> e. 24 hours matron,
>
> f. Operable emergency exists,
>
> g. Fire extinguishers
>
> h. Operable individual cell doors.
>
> 2. Sanitary Conditions
>
> a. Operable toilets in cells and clean and workable washbasins and showers, and
>
> b. Availability of such personal items as soap and toothpaste and the cleanliness of such things as blankets, sheets, and towels,

3. Inmate Comfort and Rehabilitation
   a. Separate dining facilities from cell block and not in view of toilets, and
   b. Adequate recreation facilities, ventilation, and lighting and
4. Privacy
   a. Visiting space separate from cells,
   b. Space for private conversations, and
   c. Private area where the prisoners were searched when first imprisoned.

B. Adequate inmate assistance should be oriented to the inmates' individual needs, personal problem solving, socialization, and skill development and should include:
   1. Work release, furloughs, and educational release programs,
   2. Vocational counseling and training,
   3. Job placement, preferably operated by State employment agencies and local groups representing employers and local unions
   4. Alcoholic, drug abuse and social service counseling, and,
   5. Right to practice own religion. **(Criteria)**

The Detailed Examination

The following is a summary of the information the auditor gathered by looking at the records, by interviewing, and by actual observation of conditions at the local jails. (Note to student: much of the general information needed for the audit has already been obtained in evidence gathered during the preliminary survey and the review and testing of management control).

Summary of Conditions at 5 Local Jails in Relation to Desirable Characteristics

Conditions (Yes = acceptable - No = unacceptable)	Precinct 1	2	3	4	5	6
I Physical Conditions						
A. Inmate Security and Safety:						
Designed Capacity Not Exceeded	yes	yes	yes	yes	yes	100
Single Occupancy Cells	no	no	no	no	no	0
No Drunk Tank	no	yes	yes	yes	yes	80
Segration Adequate for						
Male/Female	yes	no	yes	yes	no	60
Adult/Juvenile	no	no	yes	no	yes	40
Offenders Classes held	no	no	no	no	no	0
24 Hour Matron	yes	no	no	yes	no	40
Operable Emergency Exists	yes	no	yes	no	no	40
Fire Extinquishers	yes	yes	yes	yes	yes	100
Operable Individual Cell Doors	yes	yes	yes	no	yes	80
% Yes	60	40	72	50	50	54
B. Sanitation:						
Operable in Cells:						
Toilets	yes	yes	yes	yes	yes	100
Washbasins	yes	yes	yes	yes	yes	100
Sanitary Showers	yes	no	yes	yes	yes	80
Laundry for Personal Clothing	yes	no	yes	no	yes	60
Items Issued:						
Soap	yes	yes	yes	yes	yes	100
Toothpaste	yes	NI	NI	NI	NI	20
Razor	yes	NI	NI	NI	yes	40
Uniforms	yes	NI	NI	NI	yes	40
Matress	yes	yes	yes	yes	NI	80
Pillow	NI	NI	yes	NI	NI	20
Items issued & cleaned before Issuance						
Blanket	yes	yes	no	yes	no	60
Sheet	NI	NI	no	yes	NI	20
Pillowcase	NI	NI	no	NI	NI	0
Towel	yes	NI	yes	yes	yes	80
Percent Yes	79	36	57	57	57	57.8
C. Inmate Comfort and Rehabilitation						
Toilets Not in View of Dining Area	no	no	no	no	no	0
Recreation Facilities Indoor	no	no	no	no	no	0
Outdoor	no	no	no	no	no	0
Library	no	no	no	no	no	0
In-house Medical Facilities	no	no	no	no	no	0
Ventilation	yes	yes	yes	yes	yes	100
Lighting in Cells						
Artificial	yes	yes	yes	yes	no	80
Natural	yes	yes	no	no	yes	60
No guard in corridor	no	no	yes	no	no	20
Space for programs	yes	no	no	no	no	20
Percent Yes	40	30	30	20	20	28
D. Privacy						
Visiting Space						
Separate from cell area	yes	no	no	no	no	20
Space for Private conversations	no	no	no	no	no	0
Privacy for search as entry	yes	no	yes	yes	no	60
No closet circuit in living area	yes	yes	yes	yes	yes	100
%	75	25	50	50	25	45
E. Inmate Assistance						
a - not available to person awaiting trial						
Work release	yes	no	no	no	no	20
Furlough	no	no	no	no	no	0
Educational Release	no	no	no	no	no	0
Vocational Training	no	no	no	no	no	0
Vocational Counseling	no	no	no	no	no	0
Job Placement	no	no	no	no	no	0
Education	no	no	no	no	no	0
Alcholic	yes	no	yes	no	no	40
Drug Abuse	no	no	yes	no	no	20
Religious	yes	no	yes	yes	no	60
Social Service Counseling	no	no	no	yes	no	20
	27	0	27	18	0	15

NI = Not Issued

The auditors also visited the state penitentiary and found the percentage of desirable features pertaining to physical conditions to be as follows:

	Percentage of Desirable Features Found in State Penitentary
Desirable features available:	
Inmate security and safety:	
Average	79
Sanitation:	
Average:	89
Inmate comfort and rehabilitation:	
Average:	98
Privacy:	
Average:	100
Total:	
Average:	92

Because of the very low percentage of inmate assistance, the auditor decided to check into the availability of inmate assistance through other limited cost sources, such as through other tax supported institutions, or through volunteer programs, or through volunteer programs which would need only a limited amount of financial assistance. The organizations contacted included school boards, alcoholic programs, employment services, ministerial societies, and public welfare agencies.

They found that resources were available in the various precincts, and organizations were willing to provide some services. However, 63% of the organizations visited had not been contacted by jail administrators. Another 23% had been infrequently. As illustrations, representatives of Alcoholics Ananymous and the State employment service indicated they provided limited services and were willing to continue with no additional financial resources. The superintendent of schools and members of the Council of Ministers had not been contacted by the jail administration and did not provide services but would be willing to do so. The Superintendent of Schools indicated that additional funding would be needed. A representative of the Department of Public Welfare stated the department could provide assistance only to inmates families.

In contacting others the auditors found that educational and vocational programs were available to both sentenced and pretrial inmates but the programs were limited.

The following is a summary of the auditor's requests concerning inmates assistance from voluntary and state offices.

Number of organizations contacted	23
Contacted by jail officials to provide services:	------(percentages)------
No contact	63
Informal and/or infrequent contact	33
Currently providing services	4
Organization's attitude toward providing services:	
Willing to provide services	62
Unable to provide services	13
Unwilling to provide services	21
Currently providing services	4
Restrictions to providing services:	
No restrictions	23
Inadequate resources	46
Miscellaneous	31

Concerning volunteer programs, - the following information also was obtained:

Criminal justice experts believe that volunteers are a viable resource for rehabilitative programs. They also point out that volunteers can serve a secondary purpose of communicating to citizens an awareness of the conditions of jails and possibly exert community pressure to improve the jails

An LEAA-funded study 1/ concluded that between 60 to 70 percent of the criminal justice agencies surveyed had volunteer programs. Literature on criminal justice includes examples of successful programs using volunteers, such as:

1/ "Guidelines and Standards for the Use of Volunteers in Correctional Programs," National Institute for Law Enforcement and Criminal Justice, Law Enforcement Assistance Administration, Aug. 1972.

-- In a Royal Oak, Michigan, program volunteers are a major element in an extensive program for misdemeanants which offers individual and group counseling, job placement assistance, and aid with family problems. Partial pay is provided for some participants, but many other citizens serve without pay.

-- The objective of a project in Westchester County, New York, was to demonstrate how citizen volunteers could effectively enrich the activities program in a short-term institution. Forty-one volunteers with various professional backgrounds but without any prior experience working with offenders were recruited and trained in the special requirements governing work in a correctional institution. Courses in needlecraft, typing and shorthand, personal grooming, nursing, and arts and crafts were organized. The results showed that citizen volunteers can enrich the activities program in a short-term correctional institution.

-- Charlottesville, Virginia, has a program involving about 100 volunteers working with individual inmates at the county jail. A broad range of inmate programs operate in the jail including work release; alcoholism counseling; remedial educational, art, and hobby programs; and limited indoor recreation. All are conducted without cost to the jail.

On the basis of information developed in the LEAA-funded 1972 study and in the three locations just mentioned, jail administrators apparently actively sought and used community resources.

In the local jails visited, the administrators said they made little effort to contact the community to obtain any services for the inmates. According to them, one reason for their lack of action was the pressing needs to attend to other duties. Criminal justice experts say that one way to ease this problem is for each jail to see a county social service worker, a city social service worker, a volunteer, or someone hired specifically to act as a resource person and counselor to inmates in the jails to encourage the inmates to use available community resources. According to them, such an approach is a relatively effortless and inexpensive way for small jails to at least begin to address the needs of offenders.

Required:

What is the conclusion you would draw concerning whether the City of X is effectively accomplishing its goal of providing local jails in which to commit persons for longer than 48 hours, to hold persons awaiting trial, or to commit sentenced prisoners for up to one year? In coming up with your conclusion, consider what the district attorney said concerning "local jails in which to commit persons."

What would be your recommendation to the Mayor and City Council.

What effect would your recommendations have upon the financial conditions of the City? Are there other sources of revenue which could be obtained to carry out your recommendations?

Section VIII -- Performance Auditing for the Effectiveness of a Program

Case 1 -- The Effectiveness of the Local Jails Program for the City of X.

Scenario 4 -- The Report

A report on an audit of this complexity would be quite voluminous. The auditor would need to present evidence in the report to support his conclusions and recommendations.

Since the student has had a summary of the evidence in Scenario 3, a conclusion with recommendations is sufficient to let the student see what results from a performance audit of a program.

Many ways of writing a conclusion are acceptable. Yet in each way the auditor will have to bring in the criteria, the causes, and the effects. The following is one way the conclusion could have been written:

Conclusion

We believe that the City of X could substantially improve its local jails program by concentrating on upgrading those features which are preponderantly below an acceptable condition when compared with standards suggested by various experts in the field of criminal justice and suggested by the various courts. Some of these features which are way below the acceptable standard are such items as inmate comfort and rehabilitation and privacy. Such items as inmate security and safety and sanitation barely meet the acceptable levels on an overall basis yet individual jails fall way below the acceptable level. Very little effort has been made in any of the jails to provide any form of inmate assistance.

Recommendations

We recommend that the Commissioner of Safety develop a set of acceptable standards for the operations of each of the various local jails and make sure that the standards are carried out. (The cost for this would be nominal)

We recommend that each of the local jail adminstrators contact local voluntary groups in order to improve inmate assistance. (The cost of up-grading inmate assistance would be almost nothing.)

We recommend that the Commissioner of Safety, the Mayor and City Council, and the Administrators of the local jails plan a program for informing the public of the need for improving the conditions of the local jails. (The cost of the program for informing the public would be very reasonable. But, the end results would be that the public would support any needed costs for upgrading the quality of the local jails).

We recommend that the Commissioner of Safety work with the local jail administrators to find out whether the jails can obtain a grant from the LEAA for upgrading the quality of the local jails program.

We recommend that a committee consisting of the administrators of the local jails and the Commissioner of Safety look into the possibility of not confining certain types of offenders in the local jails. (This recommendation could reduce the costs of operation sufficiently to take care of the costs of any other improvements.)

Required:

If sufficient evidence was placed in the report to support the conclusion and recommendations would the Mayor, City Council, the Commissioner of Safety, and the local jail administrators have any hesitation in accepting the conclusion and recommendations?

Would you state the conclusions and recommendations differently? Should the auditor present his findings and recommendations orally rather than in writing?

Since the report is the only means for communicating the results of the audit, can you suggest more appropriate means of communicating the results of the audit.